

**EXH. TLF-4C
DOCKET UG-230968
WITNESS: TRICIA L. FISCHER**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

Docket UG-230968

PUGET SOUND ENERGY,

Respondent.

**THIRD EXHIBIT (CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF**

TRICIA L. FISCHER

ON BEHALF OF PUGET SOUND ENERGY

**REDACTED
VERSION**

APRIL 25, 2024

Cap & Invest Program – Auction #1 Strategy

EMC Decisional
January 27, 2023

Tricia Fischer
Manager, Power Origination



Recommendation

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VERSION

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]



Gas and power - forecasted carbon positions including expected no-cost allowances

Gas Position	Units	2023	2024	2025	2026
F22 gas load forecast	Dth				
Plus forecast adjustment	Dth				
Forecast used for position	Dth				
Est. carbon obligation	mTCO2e				
Plus no-cost allowances	mTCO2e				
Initial EOY position	mTCO2e				
Less allowances consigned	mTCO2e				
Cumulative EOY position	mTCO2e				

Power Position*	Units	2023	2024	2025	2026
2022 power load forecast	MWh				
Coal	mTCO2e				0
Natural gas**	mTCO2e				
Unspecified contracts & exchange in	mTCO2e				
Est. carbon obligation	mTCO2e				
Plus no-cost allowances	mTCO2e				
Initial EOY position	mTCO2e				

* Assumes no-cost allowances are used for compliance and not consigned to auction
 **Natural gas generation based on 1/18/23 market heat rates & \$/MT carbon price

Combined Gas + Power Position	Units	2023	2024	2025	2026
Est. EOY carbon position	mTCO2e				



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PSE's 2023 auction purchase limit can be allocated between the gas and power books in various ways yet it's below the estimated combined carbon obligation

Time Period	Auction Offering (mTCO2e)	10% Purchase Limit (mTCO2e)	Example A			Example B			Example C			
			Gas / Electric split (%)	Gas (mTCO2e)	Electric (mTCO2e)	Gas / Electric split (%)	Gas (mTCO2e)	Electric (mTCO2e)	Gas / Electric split (%)	Gas (mTCO2e)	Electric (mTCO2e)	
Q1 2023	6,185,222	618,522										
Q2 2023*	12,693,993	1,269,399										
Q3 2023*	12,693,993	1,269,399										
Q4 2023*	12,693,993	1,269,399										
2023 Total	44,267,200	4,426,720										

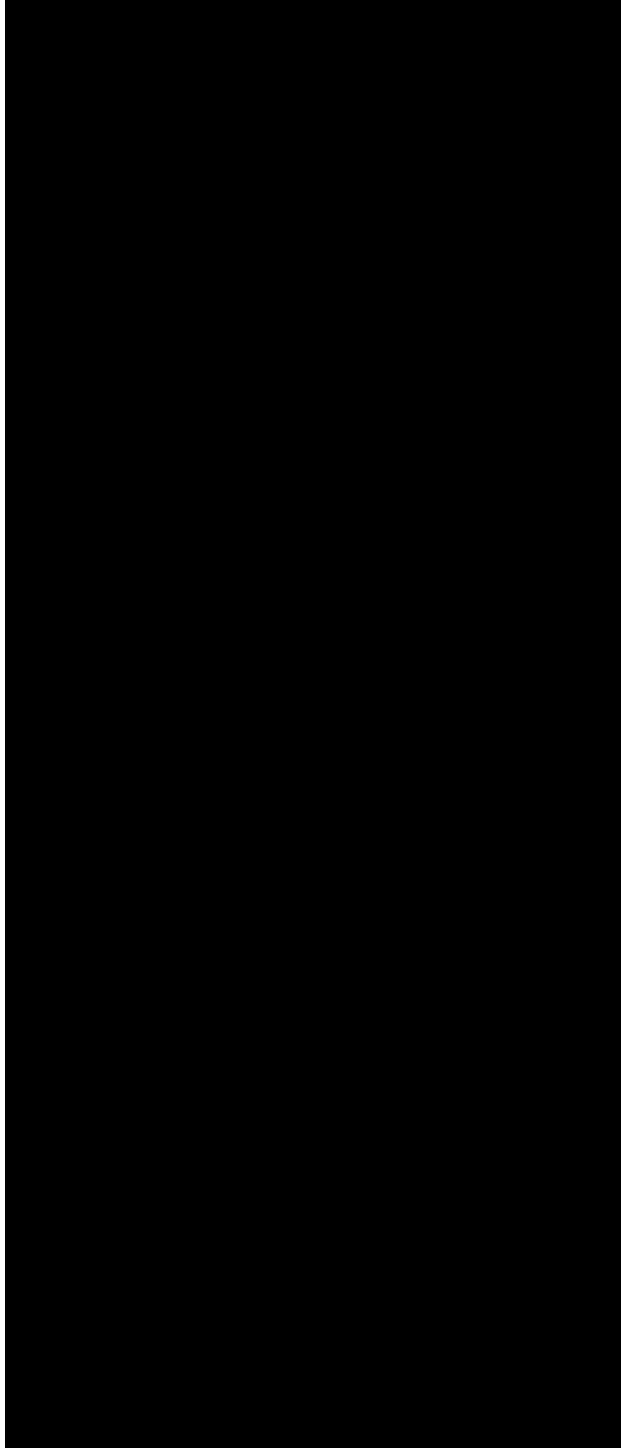
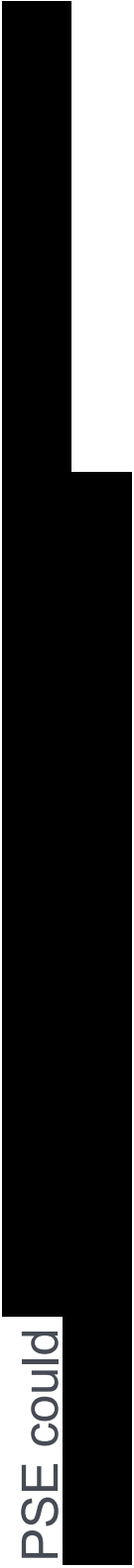
*Illustrative distribution of DOE offering by quarter for balance of 2023

Combined Gas + Power Position	Units	2023	2024	2025	2026
Est. EOY carbon position	mTCO2e				



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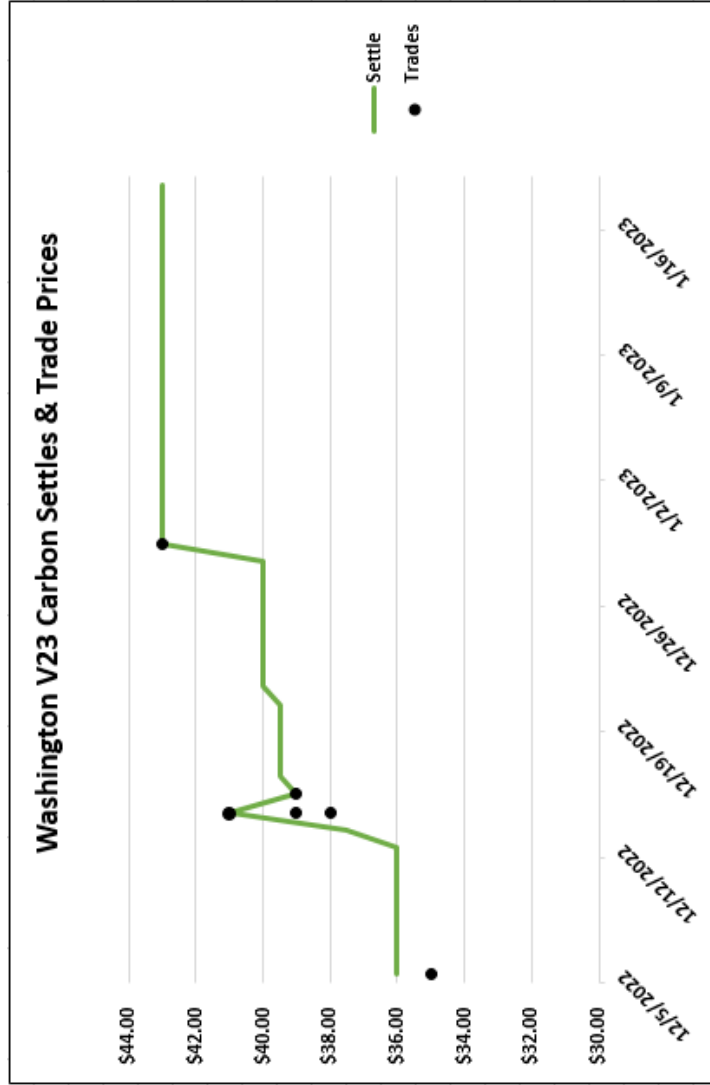
PSE could



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Vintage 2023 WCAs have traded in the \$35 - \$43 range



Source: Nodal Exchange



Standing delegations of authority are not recommended at this time

Several commercial issues need to be resolved, including:

- Holding limits for the general accounts result in restrictions at the business entity level
- Auction purchase limit allocated between gas and power books
- Need to purchase allowances for power system sales (cannot use no-cost allowances)
- Cost recovery resolution options could impact strategy:

Limitation of no standing delegation of authority

- Inability to opportunistically purchase WCAs in the bilateral market

Recommendation

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[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]



Appendix



February 28 DOE Auction Schedule

Activities	Due Date	Time (PT)
Auction Notice released	Dec. 20, 2022	12:00p
Deadline for entities intending to participate in auction to submit entity information changes & disclosures	Jan. 19, 2023	8:59p
Auction application window closes	Jan. 29, 2023	8:59p
Bid guarantees due to Financial Services Administrator (FSA)	Feb. 16, 2023	No later than 3:00p
Auction participants approved; PAR and AARs notified	Feb. 24, 2023	No later than 2:00p
Auction	Feb. 28, 2023	Bidding window open 10:00a – 1:00p
Auction Summary Results Report released; Results available to bidders	Mar. 7, 2023	12:00p
Financial settlement in cash due to FSA	Mar. 15, 2023	No later than 3:00p
Earliest date for bid guarantee expiration	Mar. 26, 2023	
Distribution of auction proceeds complete	Mar. 28, 2023	
Transfer of allowances to CITSS accounts	Mar. 28, 2023	
WA Auction Public Proceeds Report released	Mar. 28, 2023	



Background on Cap-and-Invest program

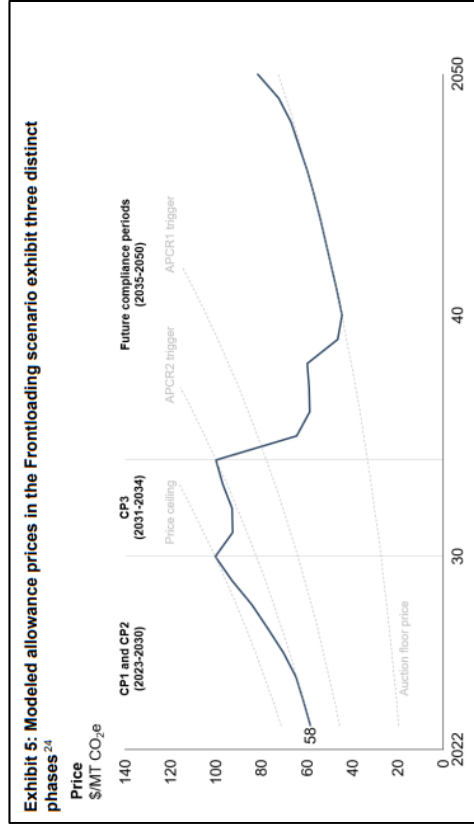
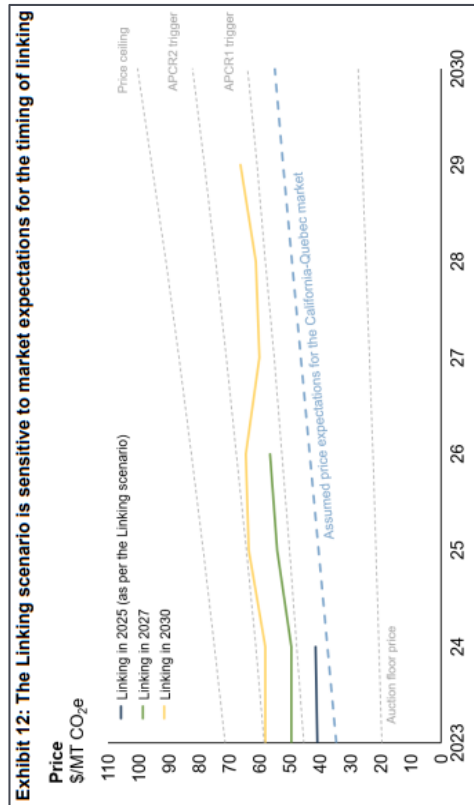
- The Climate Commitment Act (CCA) caps and reduces greenhouse gas (GHG) emissions in WA via a Cap-and-Invest market
 - 4-year compliance periods beginning 2023
 - Allowance retirement occurs in November of the year following the compliance year
 - Compliance based on reported GHG emissions
 - Covered entities receive no-cost allowances
 - Auctions conducted by the WA Department of Ecology (DOE)
 - Entities “consign” allowances to quarterly auctions (required for gas utilities)
 - Covered entities purchase allowances via auction or secondary market or use no-cost allowances for compliance
 - PSE will be both a seller and a purchaser of allowances in the DOE auctions
 - Proceeds from auctions must be used for the benefit of ratepayers as specified in the regulation (not as restrictive for electric utilities compared to gas utilities)

Allocation of no-cost allowances

	Gas LDC	Electric
Allowance distribution	Based on 2015-2019 baseline. Starts at 93% of baseline & declines 7% per year	Based on CEIP forecasted supply/demand as approved by WUTC
Consignment (selling at auction)	<u>Required</u> . Starting in 2023, 65% of no-cost allowances, increasing by 5% annually	No requirement
Consignment revenues	Use of proceeds required to <i>eliminate</i> low income burden. Additionally, may invest in weatherization, decarbonization, conservation etc. or provide non-volumetric bill credits, prioritizing low-income customers	Proceeds must benefit ratepayers with priority to <i>mitigate</i> low-income customers



Market analysis shows prices in the \$40 - \$60 range



Source: Vivid Economics for DOE

