

Agenda Date: September 25, 2025  
Item Numbers: A1, A2, and A5

**Dockets:**        **UE-250132**  
                      **UE-250135**  
                      **UG-250151**

**Companies:**    Avista Corporation d/b/a Avista Utilities  
                      Puget Sound Energy  
                      Cascade Natural Gas Corporation

**Staff:**            Chris McGuire, Regulatory Analyst – Energy Rates and Services

### **Recommendation**

Commission Staff recommends that the Commission:

1. Issue an Order in Docket UE-250132 granting the petition for deferred accounting treatment filed on March 4, 2025, by Avista Corporation d/b/a Avista Utilities,
2. Issue an Order in Docket UE-2501325 granting the petition for deferred accounting treatment filed on March 4, 2025, by Puget Sound Energy.
3. Issue an Order in Docket UG-250151 granting the petition for deferred accounting treatment filed on March 7, 2025, by Cascade Natural Gas Corporation,

### **Background**

#### ***Tariffs on Energy Imports from Canada***

On February 1, 2025, President Trump issued Executive Order (E.O.) 14193 directing the imposition of import tariffs on all articles that are products of Canada, including a 10 percent duty on natural gas imported into the United States (U.S.) from Canada.<sup>1</sup> The tariffs do not apply to electrical energy imported from Canada.<sup>2</sup>

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<sup>1</sup> Exec. Order No. 14193, *Imposing Duties to Address the Flow of Illicit Drugs Across Our Northern Border*, § 2(a) (Feb. 1, 2025), available at <https://www.govinfo.gov/content/pkg/FR-2025-02-07/pdf/2025-02406.pdf>.

<sup>2</sup> Executive Order No. 14193 adopts by reference the definition of “energy and energy resources” provided in Executive Order No. 14156, which specifies that the term “energy” or “energy resources” means crude oil, natural gas, lease condensates, natural gas liquids, refined petroleum products, uranium, coal, biofuels, geothermal heat, the kinetic movement of flowing water, and critical minerals, as defined by 30 U.S.C. 1606(a)(3). See Exec. Order No. 14156, *Declaring a National Energy Emergency*, at § 8(a) (Jan. 20, 2025), available at <https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02003.pdf>.

On February 3, 2025, President Trump issued E.O. 14197 suspending implementation of the tariffs until March 4, 2025.<sup>3</sup> On March 4, 2025, the tariffs went into effect but on March 5, 2025, President Trump issued E.O. 14226, suspending the implementation of the tariffs on goods that qualify for the United States-Mexico-Canada Agreement (USMCA) preference.<sup>4</sup> Natural gas produced in Canada qualifies for USMCA preferential treatment<sup>5</sup> and, therefore, effective March 7, 2025, natural gas imports from Canada are exempted from import tariffs. The tariffs on natural gas imports from Canada were in effect for three days – from March 4 through March 6.

### ***Accounting Petitions Filed in Response to the Import Tariffs***

Two electric utilities – Avista Corporation d/b/a Avista Utilities (Avista) and Puget Sound Energy (PSE) – and one natural gas utility – Cascade Natural Gas Corporation (Cascade) filed with the Washington Utilities and Transportation Commission (Commission) petitions for an order authorizing deferred accounting treatment for the costs of the tariffs on natural gas imports from Canada. Avista filed its petition on March 4, 2025, in Docket UE-250132, PSE filed its petition on March 4, 2025, in Docket UE-250135, and Cascade filed its petition on March 7, 2025, in Docket UG-250151.

The remaining three natural gas utilities – Avista, PSE, and NW Natural – also filed petitions to defer the costs of the tariffs, but those three utilities subsequently withdrew their petitions because after filing they learned that they can record the costs of the tariffs to FERC account 804 (Natural Gas City Gas Purchases) which is tracked through the purchased gas adjustment (PGA) mechanisms. Therefore, the tariff costs already receive deferred accounting treatment which rendered the accounting petitions unnecessary.

## **Discussion**

### ***Tariff Costs Incurred to Date***

Between March 4 and March 6 (i.e., the three days the tariffs were in effect), Avista, PSE, and Cascade recorded Washington-allocated tariff costs in the following amounts:

#### ***Electric Utilities***

Avista	\$17,808
PSE	\$135,698

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<sup>3</sup> Exec. Order No. 14197, *Progress on the Situation at Our Northern Border*, § 3 (Feb. 3, 2025), available at <https://www.govinfo.gov/content/pkg/FR-2025-02-10/pdf/2025-02478.pdf>.

<sup>4</sup> Exec. Order No. 14226, *Amendment to Duties To Address the Flow of Illicit Drugs Across Our Northern Border*, § 1 (March 6, 2025), available at <https://www.govinfo.gov/content/pkg/FR-2025-03-06/pdf/2025-03728.pdf>.

<sup>5</sup> 19 C.F.R. § 182. See also 19 C.F.R. § 182, Appendix A § 3.

***Natural Gas Utilities***

Avista	\$49,445
PSE	\$157,383
Cascade	\$110,548

***Applicable Policy Standard***

Petitions for deferred accounting treatment must meet the Commission’s “extraordinary circumstances” standard. That is, for a petition for deferred accounting to be granted by the Commission:

1. The change in utility costs in question must be the result of extraordinary circumstances beyond the utility’s ability to control,<sup>6</sup> and
2. Absent deferred accounting treatment the utility would not have an opportunity to recover the costs in rates.

In Commission Staff’s (Staff) opinion, the costs associated with new import tariff imposed by the federal government meet the Commission’s “extraordinary circumstances” standard as neither the event giving rise to the change in utility costs (i.e., the imposition of tariffs by executive order) nor the change in cost itself (i.e., the cost increase to the utility resulting from those tariffs) are within the utility’s ability to control. Furthermore, the tariff costs resulting from E.O. 14193 could not have been accounted for when the utilities’ base rates were last set by the Commission. Therefore, absent deferred accounting treatment utilities would not have an opportunity to recover the costs of the tariffs.

***Electric Petitions – Avista (UE-250132) and PSE (UE-250135)***

Although the costs of the tariffs on natural gas imports from Canada are the result of extraordinary circumstances beyond the utilities’ ability to control, whether authorizing deferred accounting here is warranted depends on whether, absent deferred accounting treatment, Avista and PSE would already have a reasonable opportunity to recover these costs through the companies’ respective power cost adjustment mechanisms (PCAMs).<sup>7</sup>

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<sup>6</sup> See, e.g., In Re: the Petition of Puget Sound Energy for an Order Approving Deferral of Wildfire Insurance Costs, Docket UE-231048, Order 01, ¶8 (February 13, 2025), citing to Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co., Dockets UE-140762, UE-140617, UE-131384, & UE-140094 (*consolidated*), Order 08. See also Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Co., Dockets UE-050684 and UE-050412, Order 04, 123, ¶370; In Re: the Petition of PacifiCorp d/b/a Pacific Power & Light Co. for an Order Approving Deferral of the Costs Associated with the Clean Energy Transformation Act, Docket UE-210414, Order 01 at 2, ¶7 (“utilities seeking deferred accounting must demonstrate that extraordinary circumstances exist to justify such treatment”).

<sup>7</sup> PSE’s power cost adjustment mechanism is referred to as the “PCA” while Avista’s power cost adjustment mechanism is referred to as the “Energy Recovery Mechanism,” or “ERM.” The basic purpose of a PCAM is to track variances of power costs relative to the costs included in the power cost baseline rate, and then subject the annual variances to a sharing mechanism composed of a deadband and sharing

Avista and PSE both record the costs of the tariffs to FERC accounts tracked through the companies' respective PCAMs,<sup>8</sup> so absent special treatment the cost of the tariffs (which is not embedded in the PCAM baseline rate) would be part of the power cost actuals and incorporated into the annual variance. Because the PCAM annual variances pass through a deadband and sharing bands, if the tariff costs are included in the calculation of the annual power cost variance, utilities would be required to absorb at least part (and possibly all) of the costs of the tariffs.<sup>9</sup> Therefore, absent the relief sought in the accounting petitions, Avista and PSE would not have an opportunity to recover the full cost of the tariffs.

One could argue that cost increases resulting from the U.S. imposing tariffs on energy product imports from Canada are one of several factors contributing to deviations of power cost actuals from the level of cost included in the power cost baseline and, thus, should not be treated differently than any other factor. However, tariffs are a form of taxation and PCAMs were never intended to address new taxes levied on the utility; PCAMs were designed to address imbalances resulting from market volatility,<sup>10</sup> and new taxes imposed by the federal government represent a non-market cause of a change to utility costs. Furthermore, given that one of the purposes of establishing a risk-sharing mechanism (i.e., the bands) for PCAMs was to promote utility cost efficiency,<sup>11</sup> it would not make sense to pass costs through the bands if those costs are 100 percent out of the utility's ability to control (such as the costs associated with new taxes). As a general matter, the Commission treats taxes as a pass-through, not as a cost that it expects utilities to absorb.

In Staff's opinion, cost increases resulting from the U.S. imposing tariffs on energy imports from Canada, should be tracked separately from other power supply-related costs, and should not pass through a PCAM's dead bands and sharing bands. Therefore, authorizing separate deferred accounting treatment for the tariff costs is appropriate.

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bands to determine the annual deferral balance (in the refund or surcharge direction) to be carried forward to the next rate year.

<sup>8</sup> PSE records the costs to FERC Account 547 (Fuel) and Avista records the costs to FERC Account 557 (Other Expenses).

<sup>9</sup> If the annual overall variance were to fall within the deadband, the company would absorb 100 percent of the incremental cost associated with the tariff.

<sup>10</sup> *In the Matter of Avista Corporation, d/b/a Avista Utilities Request Regarding the Recovery of Power Costs Through the Deferral Mechanism*, Docket UE-010395, Sixth Supp. Order ¶¶ 5-6 (September 24, 2001). *See also* Wash. Utils. & Transp. Comm'n. v. Puget Sound Energy, Inc., Docket-UE-072300, Order 13, ¶ 29.

<sup>11</sup> Wash. Utils. & Transp. Comm'n. v. Pacific Power & Light Co., Docket UE-050684, Order 04 at 37, ¶ 96 (April 17, 2006). *See also* Wash. Utils. & Transp. Comm'n. v. Pacific Power & Light Co., Docket UE-130043, Order 05 at 67, ¶ 172 (December 4, 2013).

***Natural Gas Petition – Cascade (UG-250151)***

Cascade has a purchased gas adjustment mechanism (PGA), the purpose of which is to track and defer variances of natural gas costs relative to the costs included in the PGA baseline rate. Unlike the annual variances for the PCAMs in place for electric utilities, the annual PGA variances do not pass through dead bands or sharing bands; rather, they are passed through to ratepayers in full over the subsequent rate year.<sup>12</sup>

To the extent that the costs of tariffs on natural gas imports are recorded to an account that is tracked through the PGA, it generally will be unnecessary for utilities to petition for deferred accounting treatment for the tariff costs because the costs will be captured annually by the existing PGA deferral mechanisms and passed through to ratepayers in full over the following year.

Cascade is unique among its peers in that it cannot record the cost of the tariffs to an account that is tracked through the PGA. While from a pure accounting perspective it would be appropriate to record the tariff costs to FERC Account 804,<sup>13</sup> Cascade's current natural gas tariff does not include language that would allow the tariff costs to be included in the cost of gas tracked through the PGA.<sup>14</sup> Specifically, Rule 19 of Cascade's tariff states that the cost of gas tracked through the PGA includes "commodity charges and commodity-related fixed charges under the Company's acquisition contracts of all types of natural gas commodities."<sup>15</sup> Given that the tariff costs would not be included in Cascade's commodity acquisition contracts, the tariff costs cannot be treated as gas costs tracked through the PGA.

Staff believes that, given the restrictive language of the company's tariff, it is appropriate to allow Cascade to defer the tariff costs to FERC Account 182.3 (other regulatory assets) as Cascade has requested. Absent the deferred accounting treatment that Cascade seeks, Cascade would not be afforded an opportunity to seek recovery of the tariff costs. Given that the other three Commission-regulated natural gas utilities are able to defer the tariff costs through the PGA deferral mechanism, authorization of the deferred accounting treatment that Cascade seeks is necessary to allow Cascade the same opportunity to recover the tariff costs as its peer gas utilities.

Cascade communicated to Commission Staff that in the coming weeks the company intends to file a revised tariff in which language of Rule 19 will be amended such that it will allow Cascade to include the costs of tariffs on natural gas imports in the company's PGA going forward.

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<sup>12</sup> Subject to a prudence review.

<sup>13</sup> PSE communicated to Commission Staff that through an informal inquiry process PSE received informal guidance from FERC indicating it was appropriate to record the tariff costs to Account 804.

<sup>14</sup> PSE's tariff states that costs associated with the Company's acquisition of natural gas commodities can be included in the PGA, and Avista's tariff states that other miscellaneous expenses directly related to the Company's cost of purchasing gas will be recorded in the PGA.

<sup>15</sup> WN U-3, Sheet No. 23. (Emphasis added).

### ***Regarding Materiality***

The Commission in the past has applied a “materiality” threshold when determining whether deferred accounting treatment is warranted. That is, at times the Commission has required the costs in question to be large enough to have a material impact on the company’s earnings.<sup>16</sup>

Staff does not advocate for applying a materiality threshold to these three accounting petitions. The Commission has declined to adopt a bright-line definition for what constitutes a “material” impact on utility earnings and, consequently, there is no Commission materiality “standard” that Staff could apply here. Moreover, while the tariff costs incurred to date likely would not be considered material under any definition of the word, there remains significant uncertainty as to whether President Trump will end the suspension currently in effect and reinstitute the tariff on natural gas imports from Canada. It is possible that utilities will incur additional tariff costs pursuant to E.O. 14193, so in Staff’s opinion it would be premature to conclude that the costs are immaterial. Furthermore, granting the petitions now would be administratively efficient as it would avoid the need for the Commission to respond to another round of petitions that would be filed if the tariffs were to be reinstituted.

### **Conclusion**

The costs of tariffs on natural gas imports from Canada are the result of extraordinary circumstances outside of the control of utilities and, absent deferred accounting treatment the petitioning utilities would not have an opportunity to recover the costs of the tariffs. Cascade is unable to defer the tariff costs through its PGA mechanism, and Avista and PSE would be required to absorb the tariff costs, at least in part, if the costs flow through the deadband and sharing bands of the PCAM. Therefore, to allow these utilities an opportunity to recover the costs of the tariffs in full, authorization of deferred accounting treatment is necessary. Staff recommends that the Commission grant the petitions filed by Avista, PSE, and Cascade.

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<sup>16</sup> See In re: the Petition of Pacific Power & Light Company for an Order Approving Deferral of the Costs Associated with the Clean Energy Transformation Act, Docket UE-210414, Order 01 at 2, ¶7 (“Circumstances that qualify as extraordinary are beyond the company’s control and generate costs that have a material impact on a company’s financial results.”) See also Wash. Utils. & Transp. Comm’n. v. Nw. Nat. Gas Co., Docket UG-080519, Order 01, 3, ¶ 7 (May 2, 2008). (“[D]eferred amounts must be of a magnitude such that recording the costs under the Federal Energy Regulatory Commission’s uniform system of accounts has a material impact on company earnings.”)