

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY,

Petitioner,

For An Accounting Order Authorizing  
Puget Sound Energy’s Accounting  
Treatment for the Cost Recovery and  
Pass Back of Natural Gas Costs and  
Proceeds Associated with the Climate  
Commitment Act in RCW 70A.65

DOCKET UG-230471

ORDER 01

GRANTING ACCOUNTING  
PETITION

**BACKGROUND**

*1* In 2021, the Washington State Legislature passed Engrossed Second Substitute Senate Bill 5126 into law, codified as Chapter 70A.65 RCW, to reduce greenhouse gas (GHG) emissions. The Climate Commitment Act (CCA), also referred to as “Cap and Invest,” establishes a declining cap on GHG emissions from covered entities and is intended to reduce emissions in the state by 95 percent by 2050.<sup>1</sup> Under the CCA, gas investor-owned utilities (IOUs) receive no-cost allowances equal to 93 percent of baseline emissions, with the allocation decreasing by 7 percent yearly.<sup>2</sup> Gas IOUs must either purchase allowances to cover the remaining emissions or reduce emissions in other ways to meet their CCA targets. Purchasing allowances, or reducing emissions in other ways, are associated with new costs for utilities while consigning allowances to auction generates new revenues.

*2* On February 28, 2023, the Washington Utilities and Transportation Commission (Commission) issued Order 01 in Dockets UE-220974 and UG-220975, granting Puget Sound Energy’s (PSE or Company) first deferred accounting petitions regarding CCA costs and revenues, subject to conditions. The Company was mandated to (1) track the incremental costs in Federal Energy Regulatory Commission (FERC) account 182.3 and the no-cost allowance proceeds in FERC account 254, and (2) separately track the

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<sup>1</sup> See Climate Commitment Act - Washington State Department of Ecology

<sup>2</sup> WAC 173-446-240 (2)

carrying costs accrued on the unamortized amounts booked to FERC account 182.3 and 254 using the approved cost of debt from its last general rate case.<sup>3</sup>

3 On June 9, 2023, PSE filed with the Commission a revision to Tariff WN U-2, proposing Natural Gas Tariff Schedule 111, which would allow the Company to recover allowance costs and pass back auction proceeds mandated under the CCA.<sup>4</sup> The schedule would implement a customer surcharge that would recover costs through charges and provide benefits through credits. On July 21, 2023, the Commission approved the tariff revision in WN U-2, Schedule 111, subject to conditions.<sup>5</sup>

4 On June 9, 2023, PSE filed with the Commission a petition seeking an Accounting Order under WAC 480-07-370(3) authorizing the following accounting treatment. First, the Company will begin accounting for Natural Gas Tariff Schedule 111 (Schedule 111), as described in Docket UG-230470, as a pass-through tariff on the date rates become effective for Schedule 111.<sup>6</sup> Second, the deferred accounting treatment that was previously approved in Order 01 under Docket UG-220975 will end. Third, the Company will defer the difference between (a) the Schedule 111 charge and the recorded allowance expense, (b) Schedule 111 credit and the recorded auction proceeds, and (c) volume differences between the amounts set in rates and the actual amounts that were charged/passed back to customers to be trued-up each time rates are set under Schedule 111. The proposed accounting treatment would be in effect between August 15, 2023, and December 31, 2023. The Commission's Order clarified that the effective date of the tariff would be August 15 rather than August 1.<sup>7</sup> On July 31, the Company filed replacement pages for the tariff, clarifying the effective date would be October 1, which would give the Company enough time to fix its billing system in line with the Commission's Order.<sup>8</sup>

5 Accrued allowance expenses would be deferred to FERC account 182.3, Other Regulatory Assets, and offset with the revenues received from the Schedule 111 surcharge. If the net deferral (net of revenues received) is a credit balance, it will be

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<sup>3</sup> Dockets UE-220974 and UG-220975, Order 01, ¶25 at 5

<sup>4</sup> Docket UG-230470

<sup>5</sup> *Id.*, Order 01, ¶¶17-22 at 5-6

<sup>6</sup> The term pass-through is used to indicate that Schedule 111 and the costs and proceeds it is recovering and passing back will have no impact on the income statement and will be trued-up to actuals over time.

<sup>7</sup> Docket UG-230470, Order 01, ¶21 at 5

<sup>8</sup> Tariff Replacement Pages filed July 31, 2023, in Docket UG-230470.

recorded as a regulatory liability in FERC account 254, Other Regulatory Liabilities. Interest associated with the Climate Commitment Act (CCA) allowance purchases would be accrued at PSE's actual total cost of debt updated semi-annually. Auction proceeds received would be deferred to a FERC account 254, Other Regulatory Liabilities, and offset with the credits provided through Schedule 111. If the net deferral (net of credits provided) is a debit balance, it will be recorded as a regulatory asset in FERC account 182.3, Other Regulatory Assets. Interest on the regulatory liability associated with the CCA auction would be accrued at the same rate as the allowance purchases. A representative portion of the pass back in Schedule 111 will be applied against the interest receivable/payable on the regulatory liability to amortize the balance.

6 Commission staff (Staff) recommends that the Commission grant the request. Staff believes the basis for allowing deferred accounting treatment of CCA costs and revenues is reasonable.

7 The Petition came before the Commission at its regularly scheduled open meeting on August 10, 2023. The Commission received written comments on the Petition from The Energy Project (TEP) and the Public Counsel Unit of the Attorney General's Office (Public Counsel). Both parties indicated that their main concerns remain with the pass-through nature of the tariff, as this deferred accounting petition passes all the risk associated with allowance costs onto customers. They indicated that the conditions associated with UG-230470 are satisfactory and they have no additional concerns with the accounting petition.

### DISCUSSION

8 We grant PSE's Petition. We agree, in the short term, that the requirements of the CCA are an extraordinary circumstance, and the costs have a material impact. We believe that deferred accounting treatment is appropriate and that accruing interest at the Company's actual total cost of debt updated semi-annually, approved for its deferral petition for an increase in regulatory fees, is fair for this filing.

9 We find it appropriate for the Company to defer its accrued allowance expenses to FERC account 182.3, Other Regulatory Assets, and auction proceeds to FERC account 254, Other Regulatory Liabilities. We also find that the Company's proposed treatment of carrying costs associated with these costs and revenues is appropriate.

### FINDINGS AND CONCLUSIONS

- 10 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property, and affiliated interests of public service companies, including natural gas companies.
- 11 (2) PSE is a public service company subject to Commission jurisdiction, providing service as an electric and natural gas company.
- 12 (3) WAC 480-07-370(3) allows companies to file petitions including that for which PSE seeks approval.
- 13 (4) Staff has reviewed the Petition in Docket UG-230471 including related work papers.
- 14 (5) Staff believes the proposed accounting order PSE requests is reasonable and should be granted, and the conditions applicable to the approval of Schedule 111 in Docket UG-230470 should remain unchanged.
- 15 (6) This matter came before the Commission at its regularly scheduled meeting on August 10, 2023.
- 16 (7) After reviewing PSE's petition filed in Docket UG-230471 on June 9, 2023, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Petition filed should be granted.

### ORDER

#### THE COMMISSION ORDERS:

- 17 (1) Puget Sound Energy's Petition for Accounting Order Authorizing Puget Sound Energy's Accounting Treatment for the Cost Recovery and Pass Back of Natural Gas Costs and Proceeds Associated with the Climate Commitment Act in RCW 70A.65 is granted.
- 18 (2) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order granting Petition be construed as an

agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.

- 19 (3) The Commission retains jurisdiction over the subject matter and Puget Sound Energy to effectuate the provisions of this Order.

The Commissioners, having determined this Order to be consistent with the public interest, directed the Secretary to enter this Order.

DATED at Lacey, Washington, and effective August 10, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

AMANDA MAXWELL  
Executive Director and Secretary