BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY For an 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-23______________ PETITION OF PUGET SOUND ENERGY

I. INTRODUCTION

1. In accordance with WAC 480-07-370(3), Puget Sound Energy ("PSE" or "the Company") respectfully petitions the Commission for an Order authorizing the accounting detailed in this Petition related to the cost recovery and pass back of Natural Gas costs and proceeds associated with PSE's compliance with the Climate Commitment Act ("CCA") in RCW 70A.65, that was approved in Senate Bill 5216 (2021) and signed into law by Governor Jay Inslee on May 17, 2021.

2. Statutes and rules at issue in this Petition include RCW 70A.65, RCW 80.01.040, RCW 80.28.020, WAC 480-90-203, WAC 480-07-370, and WAC 173-446.

3. PSE is a combined gas and electric utility that provides service to approximately 1,200,000 electric customers and 860,000 natural gas customers in Western Washington.

4. All correspondence related to this Petition should be directed as follows:

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II. SUMMARY OF PETITION

5. PSE currently has deferred accounting for CCA costs and auction proceeds approved in Docket UG-220975. However, with PSE's filing of its Natural Gas Tariff Schedule 111 ("Schedule 111") filed concurrently with this petition ("Schedule 111 Filing"), a new deferral petition is now necessary as revenue charges and credits for the CCA were not addressed under PSE's existing deferral petition. In its Schedule 111 Filing, PSE is proposing to charge customers to recover the cost of CCA allowances and also to provide auction proceeds to customers via bill credits, both on a going forward basis. As such, it will no longer be appropriate for PSE to defer only costs and proceeds under its existing deferral petition approved in Docket UG-220975 as, once approved, rates will be set to recover and pass back CCA costs and proceeds and deferral of only the costs and proceeds will no longer be necessary. However, as a consequence, a new petition is now required in order to approve PSE's current request to treat Schedule 111 as a pass-through[1] tariff similar to the accounting treatment for PSE's Natural Gas Conservation programs approved under Docket No. UG-120812.

III. BACKGROUND

6. Senate Bill 5126, also known as the Climate Commitment Act, which became effective July 25, 2021 and which was codified in RCW 70A.65, is designed to ensure state

[1] 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.

Greenhouse Gas ("GHG") emissions are reduced by covered entities consistent with the state's GHG limits. In passing the legislation, it was noted that "climate change is one of the greatest challenges facing our state and the world today, an existential crisis with major negative impacts on environmental and human health".[2] In order to ensure that GHG emissions are reduced by covered entities consistent with the limits established in RCW 70A.45.020, the legislation requires the department to implement a cap on GHG emissions from covered entities and a program to track, verify, and enforce compliance through the use of compliance instruments.

7. RCW 70A.65.070 required the department to commence the program by January 1, 2023, by determining an emissions baseline establishing the proportionate share that the total GHG emissions of covered entities for the first compliance period bears to the total anthropogenic GHG emissions in the state during 2015 through 2019. As PSE is a covered entity, as defined in RCW 70A.65.080, PSE must participate in the compliance program.

8. Per RCW 70A.65.130, for the benefit of ratepayers, allowances must be allocated at no cost to covered entities that are natural gas utilities. The department adopted rules under WAC 173-446, in consultation with the Washington Utilities and Transportation Commission, which established the methods and procedures for allocating allowances to natural gas utilities. The rules provide for a natural gas utility to be allocated allowances at no cost to cover ninety-three percent of their emissions allocation baseline in year one of the program and decline proportionally with the cap, consistent with RCW

[2] RCW 70A.65.005(1)

70A.65.070.[3] Allowances allocated at no cost to natural gas utilities must be consigned to auction for the benefit of ratepayers, deposited for compliance, or a combination of both.[4] Beginning in 2023, 65 percent of the no cost allowances must be consigned to auction[5] for the benefit of customers, including at a minimum eliminating any additional cost burden to low-income customers from the implementation of the chapter.[6] Subsequently, the percentage of allowances consigned to auction must increase by five percent each year until a total of 100 percent is reached.[7]

9. Per RCW 70A.65.100 and WAC 173-446-300(1), the department shall hold a maximum of four auctions annually, plus any necessary reserve auctions.

10. On December 29, 2022, PSE filed with the Commission a petition in Docket UG-220975 seeking an accounting order under WAC 480-07-370 authorizing PSE to utilize deferred accounting treatment for allowance purchase costs and auction proceeds associated with the Company's compliance with the CCA in RCW 70A.65.

11. On February 28, 2023, the Commission granted PSE approval to defer the cost of purchasing allowances to comply with the CCA and the proceeds from no-cost allowances consigned to auction beginning January 1, 2023 in Order 01 under Docket UG-220975.

12. As PSE indicated at the Open Meeting for the docket, PSE is now requesting approval of a natural gas tariff – Gas Schedule 111 to collect from customers the costs associated

[3] WAC 173-446-240(2)
[4] WAC 173-446-240(3)
[5] WAC 173-446-300(2)(b)(ii)
[6] WAC 173-446-300(2)(b)(ii)
[7] WAC 173-446-300(2)(b)(ii)(A) through (H)

with purchasing natural gas allowances for compliance with the CCA as well as effectuate the pass back of auction proceeds.

IV. JUSTIFICATION FOR REQUESTED ACCOUNTING TREATMENT

13. This Petition is necessary in order to true-up customer rates to the appropriate level for this state mandated program.

14. Per RCW 70A.65.080, compliance periods are four years in length, with the first spanning January 1, 2023 through December 31, 2026. Because the compliance periods are so long, by necessity, the cost of allowances for CCA compliance as well as the auction proceeds set in rates must be based on estimates with the final costs and proceeds not being known until after the end of each four year compliance period. PSE's proposed Schedule 111 filing requests the ability to true-up its Schedule 111 rates over each four year compliance period.[8]

15. In the Schedule 111 filing, PSE is proposing a recovery and pass-back period of August through December 2023 for the forecasted allowance costs and forecasted auction proceeds during the same period, August through December 2023. PSE believes it is appropriate to include these forecasted amounts in rates now as this will ensure the closest matching of customer usage to the related charge and helps customers avoid having to pay for allowance costs from a different year that are unrelated to their current usage.

[8] Per WAC 173-446-600(4), final compliance occurs in November following the end of each four year compliance period, the first such date being November 1, 2027.

16. Finally, approval of the deferral, true-up and pass-through treatment will preserve the CCA compliance costs for later review, and will allow for true-up using updated estimates or actual amounts incurred, in order for the proper amounts to be charged or passed back to customers across each compliance period.

V. PROPOSED ACCOUNTING TREATMENT

17. PSE is requesting in this Petition, that on the date rates become effective for Schedule 111, the deferred accounting treatment that was previously approved in Order 01 under Docket UG-220975 shall end and that the Commission allow PSE to begin accounting for Schedule 111 as a pass-through tariff.

18. In its separate tariff filing, PSE is seeking to include the following components in the Schedule 111 rate:

a) The forecasted costs associated with purchasing allowances in order to comply with a given compliance year or partial compliance year in the case of 2023,

b) The forecasted proceeds associated with the sales of no cost allowances to be received in a given compliance year or partial compliance year in the case of 2023,

c) Actual interest receivable and/or payable from the prior period; and

d) A true-up for the prior rate period.

19. The forecasted costs associated with purchasing allowances will be shown as a charge to customers, while the forecasted proceeds associated with the sales of no cost allowances will be a credit back to customers on Schedule 111. As stated in the Schedule 111 Filing,

the customer credits will be made in the form of a direct offset of the charge for low income customers or a non-volumetric credit for all other eligible customers.

20. PSE is requesting in this Petition that the Commission approve deferred accounting treatment for the difference between 1) the Schedule 111 charge and the recorded allowance expense, and 2) Schedule 111 credit and the recorded auction proceeds and 3) 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.

21. PSE is requesting approval for the accounting detailed in Attachment A to this petition. Also included in Attachment A are T-Accounts that result from the requested journal entries. Amounts and ratios reflected in Attachment A are fictitious amounts provided as examples only.

22. As an overview, the requested accounting:

- Defers the accrued CCA allowance expense to a 182.3 Other Regulatory Asset account and offsets this regulatory asset with the revenues received to recover the CCA allowance costs through the Schedule 111 surcharge (entries 4, 5, 9 and 11 in Attachment A). If the net deferral (net of revenues received) is a credit balance, it will be recorded as a regulatory liability in FERC 254 Other Regulatory Liabilities;

- Accrues interest associated with the CCA allowance purchases at PSE's actual total cost of debt updated semi-annually. This approach is consistent with the interest accrual allowed in PSE's deferral petition for the increase in the WUTC Regulatory Fee approved under Dockets UE-220407 and UG-220408. It is reasonable to allow PSE to update its cost of debt as there will be annual filings under Schedule 111 wherein the updated calculation can be reviewed without the need for an extra filing. Additionally, the balance on which the interest will be applied will not be the regulatory asset. Instead, it will be calculated on the net of the following cash basis transactions:

- CCA inventory purchases[9] (as opposed to the CCA accrued expense[10] which is what is included in the regulatory asset); and

- Amounts collected through the Schedule 111 charge.[11]

Accordingly, separate tracking accounts will be needed in order to ensure that interest is only charged on cash basis transactions. Please see entries 6 and 7[12] in Attachment A. Of note is that the tracking accounts on which interest will be applied can be either a net receivable or net payable depending on whether charges in Schedule 111 are lagging or ahead of the purchase of CCA allowance inventory. Finally, a representative portion of the recovery in Schedule 111 will be applied against the interest receivable / payable in order to amortize the balance (see entry 11 in Attachment A).

- Defers the auction proceeds received to a 254 Other Regulatory Liability account and offsets this regulatory liability with the credits provided through Schedule 111 (entries 2, 3, 10 and 12 in Attachment A). If the net deferral (net of credits provided) is a debit balance, it will be recorded as a regulatory asset in FERC 182.3 Other Regulatory Asset

- Accrues interest on the regulatory liability associated with the CCA auction proceeds (see entry 8 in Attachment A). Auction proceeds are recognized upon receipt and are not accrued for ahead of time as is required for the CCA allowance expense. Therefore, the transactions within the regulatory liability account are all cash-based which means tracking accounts such as those discussed above are unnecessary for the interest on the regulatory liability. Of note is that the regulatory liability can also be a net payable or a net receivable depending on whether proceeds are passed back to customers prior to their receipt.[13] Finally, a representative portion of the pass back in Schedule 111 will be applied against the interest receivable / payable on the regulatory liability in order to amortize the balance (see entry 12 in Attachment A).

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[9] Entry #1 in Attachment A. Amounts will be included regardless of whether allowances are purchased on the secondary market or in sanctioned standard or reserve auctions and regardless of the vintage purchased and whether or not such vintages will be held for compliance of a current or future compliance years.

[10] Entry #4 in Attachment A.

[11] Entry #11 in Attachment A.

[12] Cell AC6 in the “T-Accounts” tab of Attachment A demonstrates on what accounts the interest will be calculated.

[13] PSE is proposing in the Schedule 111 filing to pass back auction proceeds prior to receipt during a portion of the proposed Schedule 111 rate period.

VI. REQUEST FOR RELIEF

23. For the reasons discussed above, PSE respectfully requests the Commission issue an Order approving the proposed accounting treatment, as set forth in this Petition.

DATED this 9th day of June, 2023.

Puget Sound Energy

By /s/ Susan E. Free

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