

**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 to Track and Defer  
Additional Costs of Short-term Purchases Made  
to Achieve Its CEIP Annual Interim Targets for  
2024 and 2025

Docket UE-\_\_\_\_\_

**PETITION OF PUGET SOUND  
ENERGY**

**I. INTRODUCTION**

*1.* Just prior to filing this petition for an order authorizing Puget Sound Energy’s (“PSE”) accounting treatment to track and defer additional costs of short-term purchases made to achieve its clean energy implementation plan (“CEIP”) targets for 2024 and 2025 (“Petition”), PSE filed a petition (the “Interim Targets Petition”) under Docket UE-210795 requesting to adjust its existing CEIP annual interim targets for 2024 and 2025 to 48 percent, a reduction from 59 percent and 63 percent respectively. Unless and until the Interim Targets Petition is approved, PSE will continue striving to meet its existing interim targets which will require PSE to begin incurring significant additional<sup>1</sup> costs to purchase clean short-term electric energy resources to meet the existing CEIP annual interim targets for 2024 and 2025. Pursuant to Washington Administrative Code (“WAC”) 480-07-370(3), PSE respectfully petitions the Washington

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<sup>1</sup> This Petition does not use the phrase “incremental cost” to avoid confusion with the Commission’s definition of how to calculate incremental cost under WAC 480-100-660. The calculation of incremental cost under the rules does not measure actual impacts to customer bills.

Utilities and Transportation Commission (“Commission”) for an Order authorizing the accounting detailed in this Petition related to tracking and deferral of the additional costs of short-term electric energy purchases associated with PSE’s efforts to achieve its CEIP annual interim targets for 2024 and 2025 as required by Washington’s Clean Energy Transformation Act (“CETA”). PSE does not consider this Petition to be relevant to the period after 2025 as there are no established interim targets for those years and PSE believes its long-term CETA acquisitions will be the basis for compliance in those years, thus, alleviating the need for short-term acquisitions.

2. The statutes and rules at issue in this Petition include Revised Code of Washington (“RCW”) 19.405, CETA, RCW 80.01.040, RCW 80.28.020, and WAC 480-100-203, WAC 480-07-370, and WAC 480-100-640 related to clean energy transformation standards.
3. PSE is engaged in the business of providing electric and gas service within the State of Washington as a public service company and is subject to the regulatory authority of the Commission.
4. All correspondence related to this Petition should be directed as follows:

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## II. SUMMARY OF PETITION

5. PSE is requesting in this Petition that the Commission approve the proposed deferred accounting treatment described in Section V of this Petition for its electric operations for additional costs associated with making short-term purchases of clean electric energy resources to achieve its CEIP annual interim targets for 2024 and 2025.

6. As stated above, just prior to filing this Petition, PSE also filed the Interim Targets Petition for adjusting its existing CEIP annual interim targets for 2024 and 2025 to 48 percent, a reduction from 59 percent and 63 percent respectively. Unless and until such time that the Commission approves a lowering of the existing interim targets for 2024 and 2025 through PSE's Interim Targets Petition, PSE will continue to pursue the most cost-effective CETA-eligible resources available to meet the currently effective targets of 59 percent for 2024 and 63 percent for 2025. After such time that the Commission approves the lowering of the existing targets, further deferrals requested under this Petition may continue to be necessary depending on (a) the level of reduction in targets granted for 2024 and 2025 if not approved at PSE's requested 48 percent, as well as (b) the level of CETA-eligible resource acquisitions that are required up until the time the targets are lowered.
7. Therefore, PSE requests the continued ability to defer costs under this Petition (a) for contracts entered into up to the amount necessary to satisfy whatever interim annual target that is contemporaneously in effect at the time those resources are acquired and (b) until costs under all contracts deferred under this Petition are subsequently set into rates. Because contracts are not yet entered into, such costs could not have reasonably been foreseen, nor adequately quantified, in the setting of rates to recover PSE's power costs in Docket UE-230805, nor are these not-yet contracted costs likely to be sufficiently quantifiable to include in PSE's update to power costs, if allowed, in the currently pending Docket UE-240004. Further, given the structure of PSE's Power Cost Adjustment ("PCA") mechanism, specifically its deadband and sharing bands, without approval of this Petition, PSE will be otherwise forced to absorb significant additional costs to purchase clean short-term electric energy resources to meet its annual interim targets for 2024 and 2025 with no ability to fully recover them in rates.
8. PSE is not requesting in this Petition that the Commission address: (1) the prudence of PSE's acquisition of the short-term resources it acquires to meet the existing CEIP annual interim targets for 2024 and 2025; or (2) the final rate treatment for recovery of the deferrals requested in

this Petition. PSE will present its case on these issues in a future proceeding. At that time – in the future proceeding – the Commission will have before it the evidence and arguments necessary to address the prudence and rate treatment issues, and thus will be able to rule on the prudence portion of the acquisition of the short-term resources.

### III. BACKGROUND

9. CETA, as codified in RCW 19.405, is intended to address the impacts of climate change by transitioning to a clean energy economy by, among other things, transforming Washington State’s energy supply.<sup>2</sup> In order to ensure swift and significant reductions in greenhouse gas emissions, CETA establishes clean energy transformation standards that require all retail sales of electricity be greenhouse gas neutral by 2030,<sup>3</sup> and that by January 1, 2045, 100 percent of all electricity sales to Washington customers be supplied by either non-emitting or renewable electricity generation resources.<sup>4</sup> In CETA, the legislature found “that utilities have an important role to play in this transition, and must be fully empowered, through regulatory tools and incentives, to achieve the goals of this policy.”<sup>5</sup>

10. As implemented through WAC 480-100-640(1), CETA requires electric investor-owned utilities such as PSE to develop a CEIP every four years. Each electric investor-owned utility must also make a biennial CEIP update filing on or before November 1<sup>st</sup> of each odd-numbered year the utility does not file a CEIP.<sup>6</sup> The CEIP describes a utility’s plan for making progress toward meeting the 2030 and 2045 clean energy transformation standards in CETA. Pursuant to WAC 480-100-640(2), each CEIP and biennial CEIP update must include, among other things,

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<sup>2</sup> RCW 19.405.010(1).

<sup>3</sup> RCW 19.405.040(1).

<sup>4</sup> RCW 19.405.050(1).

<sup>5</sup> RCW 19.405.010(5).

<sup>6</sup> WAC 480-100-640(11).

interim targets in the form of the percent of forecasted retail sales of electricity supplied by non-emitting and renewable resources in years prior to 2030 and from 2030 through 2045.

11. PSE filed its first CEIP with the Commission on December 17, 2021, in Docket UE-210795 (“2021 CEIP”). The Commission approved PSE’s 2021 CEIP subject to conditions on June 6, 2023.<sup>7</sup> PSE timely filed its 2023 biennial CEIP update on November 1, 2023 (“2023 Biennial Update”). In the 2023 Biennial Update, PSE proposed to shift its interim targets to a single four-year average interim target, and also change the annual interim target values. The Commission approved PSE’s 2023 Biennial Update on March 25, 2024, with conditions that denied PSE’s request to change its interim targets and required PSE to 1) maintain the annual interim targets approved in Order 08, and 2) maintain the methodology of having one interim target for each of the four years in the compliance period.<sup>8</sup>

12. As further explained in the Interim Targets Petition, PSE is continuing to aggressively pursue utility scale and distributed energy resources consistent with customer expectations and Washington state clean energy policies. However, the pathway in the near term to meet interim targets has become much more challenging than was expected when CETA was passed and the 2021 CEIP was filed.

13. To achieve the existing CEIP annual interim targets for 2024 and 2025, PSE would need to acquire a significant amount of CETA-compliant clean energy resources on a short-term basis (through various contractual arrangements, including individually negotiated Power Purchase Agreements (PPAs), WSPP Schedule C Specified Source contracts, or similar transactions that

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<sup>7</sup> *In the Matter of Puget Sound Energy Clean Energy Implementation Plan Pursuant to WAC 480-100-640*, Docket UE-210975, Order 08 Approving CEIP Subject to Conditions (June 6, 2023)(“Order 08”).

<sup>8</sup> *In the Matter of Puget Sound Energy Clean Energy Implementation Plan Pursuant to WAC 480-100-640*, Docket UE-210975, Order 12 Approving CEIP Biennial Update Subject to Conditions (Mar. 25, 2024), at ¶¶ 16(1) and 28 (“Order 12”).

possess CETA qualifying attributes.<sup>9</sup>) in the wholesale market. PSE estimates the costs of acquiring such short-term CETA-compliant resources would be substantial, resulting in an additional material confidential cost as disclosed in the Interim Targets Petition. These costs are the additional premium costs to acquire the short-term CETA-compliant resources and are net of the underlying energy cost that is already built into rates.

#### IV. JUSTIFICATION FOR DEFERRAL TREATMENT

14. As noted above, the pathway for PSE to meet the existing CEIP annual interim targets for 2024 and 2025 is to acquire CETA-compliant clean energy on a short-term basis through transactions in the wholesale market to cover the period through 2025. As stated above, PSE estimates the additional costs to pursue the existing CEIP annual interim targets for 2024 and 2025 could be material as discussed in the Interim Targets Petition.
15. This is a significant level of additional costs in the near term to comply with CETA and creates the need for this Petition. This is especially important in light of the uncertainty created by the condition included in Order 12 on the Biennial Update where the Commission referred to “unreasonably costly energy” but did not provide any guidance on how it would determine if the purchased energy was unreasonably costly.<sup>10</sup> This accounting Petition is also consistent with the legislature’s declaration that utilities in the state “be fully empowered, through regulatory tools and incentives, to achieve” the CETA goals.

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<sup>9</sup> WSPP Schedule C is a standard contract for wholesale market purchases and sales of electricity. The vast majority of PSE’s short-term wholesale market transactions are conducted according to the WSPP Schedule C contract. These contracts can be utilized for a range of different transaction tenors including those spanning as little as a single hour with delivery scheduled for the current day or transactions spanning an entire year with delivery scheduled several years in advance. A “Specified Source” designation in a WSPP contract supplements the standard Schedule C contract terms with restrictions on the source of energy that a seller may use to supply the contract volume.

<sup>10</sup> Order 12 at ¶ 28(1)c; the condition states in its entirety: “If PSE would need to purchase unreasonably costly energy to meet the 2025 Interim Targets, the Commission will consider this in determining whether the Company has complied with the Interim Targets for the first compliance period.”

16. Additionally, providing the requested deferred accounting treatment will allow the Commission to more precisely track the costs of short-term CETA-compliant capacity and energy in the market at this time, which would also serve to address the condition in Order 12 which refers to unreasonably costly energy. Were these resources to be included in PSE's PCA mechanism with the remainder of PSE's power cost portfolio, it will be more difficult to ascertain the separate impact of these resources. Moreover, through the operation of its PCA mechanism, specifically its deadband and sharing bands, and the inability to include such costs among those forecast to be recovered in rates in 2025 through its currently pending rate case, PSE will have no ability to recover a substantial portion of these costs in rates, contrary to the statutory requirements under RCW 80.28.010(1).
17. For all of the stated reasons, it is appropriate to allow deferral treatment for PSE's additional costs associated with acquiring short-term CETA-compliant PPAs or other contracts and transactions to achieve the existing CEIP annual interim targets for 2024 and 2025.

## **V. DEFERRED ACCOUNTING METHODOLOGY**

18. PSE seeks in this Petition to defer the additional costs associated with making short-term purchases of CETA-compliant clean energy resources that have terms that end prior to 2026 to achieve its CEIP annual interim targets for 2024 and 2025. Short-term CETA-compliant purchases used to achieve the CEIP annual interim targets will reduce the actual costs of non-CETA compliant power purchases built into rates for 2024 and 2025. Therefore, PSE proposes to use the embedded cost of market purchases included in rates to offset the short-term CETA-compliant power purchase costs being deferred as explained below. This requested

treatment, including the offset for market power, matches treatment provided for previously approved deferrals of power costs.<sup>11</sup>

19. For example, assume in October 2024 PSE executes a WSPP Schedule C Specified-Source contract for 25 MW of CETA-compliant clean energy delivered during all hours in December 2024 at a price of \$150 per MWh. The additional costs of this contract would qualify for deferral according to this petition because it supplies CETA-compliant energy needed to meet PSE's 2024 CEIP interim target and it is not included in PSE's rates for 2024. The full cost of this hypothetical CETA-compliant resource is \$2.79 million (25 MW X 744 hours X \$150 per MWh). However, because this resource displaces other non-CETA compliant purchases that were built into PSE's 2024 rates, the *additional* cost of the resource is less than the full cost of the contract. The cost of December market purchases embedded in PSE's rates for 2024 is \$72.90 per MWh.<sup>12</sup> So, the new CETA-compliant resource reduces PSE's cost of non-CETA-compliant purchases by \$1.36 million (25 MW X 744 hours X \$72.90 per MWh). Accordingly, the additional cost PSE would defer in this example is \$1.43 million (\$2.79 million full contract cost minus \$1.36 million market purchase offset). As stated above, this method for calculating the deferral has been previously approved by the Commission.

20. PSE intends to begin following the accounting outlined in this Petition once filed and the deferrals will not exceed and only include power purchases necessary to meet its CEIP annual interim targets for 2024 and 2025 until such contracts are included in rates. Once those targets are achieved, whether at existing target levels or lower levels that may be approved under the Interim Targets Petition, PSE believes no additional acquisitions will be needed and there would be no additional instances to defer under this Petition. For clarity, PSE will file a letter to the docket assigned to this accounting Petition no later than the end of the month following the end

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<sup>11</sup> Paragraphs 25 and 55 in Order 05 in Docket UE-200980 approving PSE's proposal summarized on page 36 of Exh. SEF-01T.

<sup>12</sup> The market purchase offset calculation for any short-term CETA-compliant resources eligible for deferral in 2025 would use the cost of market purchases embedded in PSE rates in effect in 2025. PSE anticipates these rates will be established pursuant to a compliance filing at the conclusion of its 2024 general rate case in Docket UE-240004.



of each quarter documenting all transactions deferred under this Petition and the cumulative deferral amount as of that time. The first such letter would be filed by January 31, 2025 and include details of deferred short-term CETA-compliant resources acquired between October 1, 2024 and December 31, 2024. .

21. PSE requests to defer the costs of said resources as a debit to a regulatory asset in account 182.3, Other Regulatory Assets. PSE also proposes to credit account 182.3, Other Regulatory Assets, for the market power offset valued at the embedded cost of market purchases included in PSE's then-current rates. This will result in a deferral to account 182.3 of only the additional costs of the required CETA-compliant short-term purchases of clean energy resources. The offset to each of these entries will be to a FERC 555 Purchase Power account that will both be included in the calculation of PSE's Power Cost Adjustment Mechanism accounting.
22. PSE proposes that interest will accrue on the deferred balance in account 182.3 until it is added to rates in a future proceeding and that the accrual rate will be at PSE's actual cost of total debt which will be updated semi-annually.

## **VI. REQUEST FOR RELIEF**

23. For the reasons set forth above, PSE respectfully requests that the Commission issue an order approving the deferred accounting, as set forth in this Petition.

DATED this 4th day of October, 2024.

Respectfully submitted

**PUGET SOUND ENERGY**

By */s/ Susan E. Free*

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