Exh. CRO-3
Dockets UE-260005, UG-260006 and UE-260113
Witness: Crystal R. Oliver

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**DOCKETS UE-260005 & UG-260006**
In the Matter of the Petition of **PUGET SOUND ENERGY** **For an Accounting Order Authorizing the Deferred Accounting Treatment for FERC Interest Associated with Mandatory Transmission Network Upgrades**	**DOCKET UE-260113 (Consolidated)**

EXHIBIT TO

TESTIMONY OF

CRYSTAL R. OLIVER

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

PSE Response to WUTC Staff Data Request No. 144

July 28, 2026

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-260005 & UG-260006
Puget Sound Energy
2026 General Rate Case

WUTC STAFF DATA REQUEST NO. 144:

Re: Alternative Approach to CCA allowance costs and no-cost allowance value treatment

a. Rather than passing back the value of no-cost allowances in schedule 111-E based on UE-250901, could PSE instead incorporate these no-cost allowances into the PCA as a reduction to allowance obligations decreasing power costs?

   1. Why or why not?

   2. If this can be done, why didn't PSE propose this treatment?

   3. Why is PSE's current approach preferable to this alternative approach?

b. Please provide updated relevant workpapers modeling the impact such a change would have on power costs and revenue requirement for this general rate case.

Response:

a. The value of no-cost emissions allowances allocated by the Department of Ecology ("Ecology") to Puget Sound Energy ("PSE") for electric operations could be incorporated into the Power Cost Adjustment ("PCA") mechanism as a reduction to PSE's Climate Commitment Act ("CCA") compliance obligation cost, with only the net compliance obligation cost reflected in the PCA baseline. However, there are substantive policy and practical reasons PSE does not propose this alternative.

   Several of these reasons were articulated in the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1T, at page 50, line 6, through page 52, line 22. Returning the value of no-cost allowances through a separate rate schedule (Schedule 111) rather than netting that value against gross CCA compliance obligation costs inside the PCA:

      (i) ensures the full financial value of no-cost allowances is returned to retail customers without exposure to the PCA

sharing bands; the alternative could be inconsistent with statutory uses of those allowances;

(ii) supports transparency by isolating the financial benefit of statutorily allocated no-cost allowances in a dedicated rate schedule; and

(iii) preserves flexibility to accommodate potential future Ecology rule changes regarding consignment of no-cost allowances to auction.

The CCA compliance obligation arises from PSE's operational dispatch decisions and is closely intertwined with other variable power costs (fuel, market purchases, secondary sales revenue) tracked through the PCA. It is appropriate for variances between forecasted and actual CCA compliance obligation costs to be shared between PSE and customers through the PCA sharing bands, both because such variances are aligned with cost causation and because that sharing creates incentives for cost-minimizing operational decisions. By contrast, the value of no-cost allowances is determined entirely by Ecology's formula-driven allocation process under WAC 173-446-230, which depends on forecasted retail demand and electric supply portfolio composition rather than on PSE's operational decisions.

The legislative intent expressed in RCW 70A.65.120(1) is that no-cost allowances “mitigate the cost burden of the program on electricity customers,” not that they be shared between PSE and customers based on forecast variances. Returning the value of no-cost allowances through a dedicated rate schedule outside the PCA preserves the statutory pass-through purpose; netting the value inside the PCA, by contrast, would route the no-cost allowance value through the PCA dead band and sharing bands, with the result that PSE could retain a portion of the no-cost allowance value as a function of forecast variance, an outcome inconsistent with the statutory pass-through purpose.

Further, the alternative would create a mismatch between cost causation and cost recovery, potentially disincentivizing cost-minimizing dispatch decisions. As explained in the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1T, at page 50, line 14, through page 51, line 21, when PSE dispatches an emitting generator, the decision creates a fuel cost, an increase to wholesale sales revenue or decrease to wholesale purchase cost, and a CCA compliance obligation—all three of which are operationally tied to the same transaction. Tracking all three through the PCA ensures that the net economic effect of the transaction is subject to the same treatment/recovery mechanism (i.e. the PCA and any sharing of variances between PSE and customers). Netting the no-cost allowance value against the CCA compliance obligation within the PCA,

however, conflates a statutory pass-through (no-cost allowance value) with operationally determined variable power costs, potentially distorting the dispatch incentive that the current methodology creates.

Finally, the separate-schedule approach preserves flexibility to accommodate future Ecology rule changes. As noted in the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1T, at page 52, lines 13-22, Ecology may in the future implement a requirement that some or all electric no-cost allowances be consigned to auction, as is currently required for natural gas utilities under chapter 173-446 WAC. If consignment is required, the resulting consignment revenue must be returned directly and entirely to retail customers and cannot be subject to PCA sharing bands. The Schedule 111 mechanism is already structured to accommodate this future contingency without requiring further ratemaking changes; the alternative netting approach would require an unwinding of netting—and establishment of a rate schedule equivalent to the current Schedule 111—if consignment were ultimately mandated.

For these reasons, PSE submits that returning the value of no-cost allowances through Schedule 111-E, rather than netting that value inside the PCA, more faithfully implements the statutory purpose of the no-cost allowance allocation, supports cost-minimizing operational incentives, preserves transparency, and accommodates future regulatory developments.

On a forecast basis, the customer-bill impact of the two approaches is equivalent: the alternative netting approach would reduce the PCA baseline by the same amount that the Schedule 111 credit currently reduces customer bills under the current approach. The substantive differences between the two approaches are in: i) the risk allocation between PSE and customers (with the current approach insulating the no-cost allowance value from PCA sharing bands while allowing risk of higher or lower than forecast compliance costs to be shared), (ii) the transparency of the no-cost allowance benefit being returned to customers, and (iii) the regulatory flexibility considerations described above.

b. If the anticipated value of no-cost allowances was used to reduce forecasted power costs rather than provided as a credit in Schedule 111 it would reduce forecasted power costs by the exact same amount it would reduce the proposed Schedule 111 credit. There would, therefore, be no impact to the revenue requirement proposed in this case.