BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, INC., Petitioner, For an Order Approving PSE's Forecasts Pursuant to RCW 70A.65.120	Docket UE-220797 Petition of Puget Sound Energy, Inc. for Approval of PSE's Revised Four-Year Demand and Resource Supply Forecast Pursuant to RCW 70A.65.120 and WAC 173-446-230(2)(j)

I. INTRODUCTION

1. In accordance with RCW 70A.65.120(2)(b) and WAC 173-446-230(2)(j), Puget Sound Energy, Inc. ("PSE") hereby submits this petition to the Washington Utilities and Transportation Commission (the "Commission") for an order approving PSE's revised four-year demand and resource supply forecast for the compliance years 2023-2026 pursuant to the Climate Commitment Act (CCA).[1]

II. BACKGROUND

2. In 2021, the Washington State Legislature passed and Governor Jay Inslee signed into law the CCA, which establishes, among other things, a comprehensive program,

[1] Climate Commitment Act, chapter 70A.65 RCW.

referred to as the Cap-and-Invest Program, to reduce greenhouse gas pollution and help achieve the state limits on anthropogenic emissions of greenhouse gases codified in RCW 70A.45.020. The Cap-and-Invest Program establishes a declining cap on greenhouse gas emissions from covered entities[2] consistent with the state limits established in RCW 70A.45.020. The Cap-and-Invest Program also establishes a program to track, verify, and enforce compliance with the cap through compliance instruments.[3]

3. The CCA allows electric utilities subject to the Washington Clean Energy Transformation Act[4] to receive no cost allowances to mitigate the cost burden of the Cap-and-Invest Program on electricity consumers.[5] The CCA requires the Department of Ecology ("Ecology") to adopt rules, in consultation with the Commission, establishing the methods and procedures for allocating allowances for investor-owned electric utilities.[6] Such rules must take into account the cost burden of the Cap-and-Invest Program on electric customers.[7] As used in the CCA, the term "cost burden" means, "the impact on rates or charges to customers of electric utilities in Washington for the incremental cost of electricity service to serve load due to the compliance cost for greenhouse gas emissions caused by the program. Cost burden includes administrative costs from the utility's participation in the program."[8]

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2 The CCA defines the term "covered entity" as a person designated by the Department of Ecology as subject to RCW 70A.65.060 through 70A.65.210 (i.e., the Cap-and-Invest Program). *See* RCW 70A.65.010(23).

3 *See* RCW 70A.65.060 through 70A.65.210.

4 Clean Energy Transformation Act, 2019 Wash. Sess. Laws, ch. 288 (codified at Chapter 19.404 RCW).

5 *See* RCW 70A.65.120(1).

6 *See* RCW 70A.65.120(2).

7 *See id*.

8 *See* RCW 70A.65.010 (21)

4. The CCA also requires the Department of Ecology to adopt an allocation schedule by rule for the first compliance period,[9] consistent with a forecast approved by the Commission, of each investor-owned utility's supply and demand, and the cost burden resulting from inclusion of the covered entities in the first compliance period.[10] During the first compliance period, electric utilities may

(i) consign the no cost allowances to auction for the benefit of ratepayers;

(ii) deposit the no cost allowances for compliance; or

(iii) a combination of (i) and (ii) above.[11]

5. On October 31, 2022, PSE filed with the Commission a Petition for an Order Approving Forecasts Pursuant to RCW 70A.65.120, which the Commission assigned to Docket UE-220797. On January 24, 2023, the Commission issued an order[12] approving PSE's forecast, subject to the modified condition that PSE notify the Commission if there are any substantive changes, as the Commission may define that term in a subsequent proceeding.[13] Specifically, the Commission's order approved PSE's original four-year demand and resource supply forecast identified in Table 1 below.

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[9] The first compliance period under the CCA is calendar years 2023 through 2026. *See*, *e.g.*, RCW 70A.65.070(1)(a).

[10] *See* RCW 70A.65.120(3).

[11] *See* RCW 70A.65.120(3)(a).

[12] *In the Matter of the Petition of Puget Sound Energy for an Order Approving Forecasts Pursuant to RCW 70A.65.120*, Order 01 (Approving Supply and Demand Forecast), Docket UE-220797 (Jan. 24, 2023) (the "Final Order").

[13] *See id*. at ¶¶ 10 and 22.

Table 1. PSE's Original Four-Year Demand and Resource Supply Forecast Approved by the Commission on January 24, 2023

	Resource Supply Category	Forecast Annual Resource Supply (MWh)			
		2023	2024	2025	2026
1.	Zero-emissions plants and contracts	14,853,218	16,350,762	16,912,266	14,755,579
2.	Coal	2,092,743	2,157,468	2,172,594	0
3.	Natural gas	4,657,102	4,434,187	4,297,031	3,624,415
4.	Unspecified contracts & exchange in	682,226	687,708	683,748	683,748
5.	Market purchases	2,190,905	1,608,594	1,546,635	4,844,055
6.	Market sales & exchange out	-2,316,115	-2,736,263	-2,911,347	-979,249
7.	Total Demand	22,160,079	22,502,456	22,700,927	22,928,549

	Resource Supply Category	Annual CCA CO_2 Emissions (Metric Tons)			
		2023	2024	2025	2026
1.	Zero-emissions plants and contracts	0	0	0	0
2.	Coal	2,221,237	2,289,937	2,305,991	0
3.	Natural gas	2,027,702	1,930,645	1,870,927	1,578,070
4.	Unspecified contracts & exchange in	298,133	300,528	298,798	298,798
5.	Market purchases	957,425	702,956	675,879	2,116,852
6.	Market sales & exchange out	0	0	0	0
7.	Total Demand	5,504,498	5,224,065	5,151,596	3,993,720

As shown in Table 1, PSE included a forecast of supply for its entire resource portfolio. The Commission determined in the Final Order that "PSE properly calculated its four-year demand and resource supply forecast"[14] and approved "PSE's four year demand and resource supply forecast."[15] Neither PSE's forecast nor the Commission's order, clarified what portion

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[14] *Id*. at ¶ 18.

[15] *Id*. at ¶ 21.

of the available supply would serve demand because it was unclear how Ecology would use the approved forecast or that this was necessary.

6. In its final order, the Commission agreed with PSE's recommendation that the Commission should allow, but not require, electric utilities to submit an update to the demand and resource supply forecasts if needed. In reaching this decision, the Commission relied upon the existence of the possibility of adjustment by Ecology (referred to as the "true up mechanism" by the Commission in Order 01) pursuant to WAC 173-446-230(2)(g):[16]

> Since Ecology's final rules include a "true-up" mechanism, the Commission should not require annual updates to the forecasts, because the "true-up" is intended to account for any differences between forecasted emissions and actuals, rendering an annual update unnecessary, neither should we require continuous updates on an as-needed basis. We thus approve these forecasts, subject to the condition detailed above regarding notification in the event of substantive changes affecting the forecasts. The Commission reserves the right to determine the definition of substantive changes requiring notification, and trusts that PSE will open a dialogue with Staff regarding any arguably substantive changes. This approach strikes a balance that ensures that the most updated forecast is publicly available and that the true-up mechanism can work as an administrative buffer, rather than as a fix for large discrepancies.[17]

7. On June 6, 2023, Ecology published its Allowance Allocation to Electric Utilities for the First Compliance Period,[18] in which Ecology determined the following allocation of initial no-cost allowances to PSE:

- 4,492,356 allowances in 2023,

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[16] WAC 173-446-230(2)(g) states as follows: "The initial allocation of allowances will be adjusted as necessary to account for any differential between the applicable reported greenhouse gas emissions for the prior years for which reporting data are available and verified in accordance with chapter 173-441 WAC and the number of allowances that were allocated for the prior year through this process."

[17] Final Order at ¶ 13.

[18] Washington State Department of Ecology, *Allowance Allocation to Electric Utilities for the First Compliance Period (Revised)*, Pub No. 23-02-031 (June 6, 2023), available at https://apps.ecology.wa.gov/publications/documents/2302031.pdf.

- 4,028,318 allowances in 2024,
- 3,879,337 allowances in 2025, and
- 3,565,788 allowances in 2026.

This initial allowance determination was much lower than PSE anticipated based on what PSE understood the Commission approved, as compared to Table 1 above.

8. Following publication of Ecology's initial no-cost allowance determinations, PSE sought to understand how Ecology arrived at its determinations. In the course of those investigations, it became clear to PSE that it misunderstood Ecology's approach to the allocation of no-cost allowances and included extraneous information. For example, PSE provided a forecast of all resource supply and did not limit the forecast to the resource supply that PSE will use to meet retail demand in the original four-year demand and resource forecast. As a result of PSE's inclusion of all portfolio information in the original four-year demand and resource forecast, Ecology was unable to distinguish between the resource supply that PSE would use to serve demand and the resource supply that PSE would use for balancing or make market sales.

9. Due to PSE's misunderstanding of Ecology's methodology and the inclusion of its entire resource supply portfolio in the forecast, Ecology was unable to make the appropriate distinction, so it mistakenly applied the unspecified emissions factor of 0.437 per MWh to forecasted market sales, and then subtracted this number of emissions from PSE's portfolio emissions to arrive at its initial allowance determination for PSE. Applying the unspecified emissions factor for market purchases to PSE's market sales fails to recognize the specific resource supply that PSE forecasts to use to serve demand and the resource supply that PSE forecasts to use to balance the bulk electric system and make market sales. Ecology's application of the emissions factor for unspecified power to all wholesale market sales resulted in a significantly insufficient number of no-cost allowances to cover PSE's forecast of retail demand.

10. For this Petition, PSE has also updated the demand and resource supply forecasts to reflect substantive changes, including recent forecasts of retail demand, resource supply forecasts approved by the Commission in PSE's multiyear rate plan, and market conditions since PSE's filing of the original four-year demand and resource supply forecast on October 31, 2022. The four-year demand forecast presented in this Petition and Exhibit A reflects PSE's most current forecast (the "F23 Forecast") approved by PSE's Energy Management Committee earlier this year. The original four-year demand and resource supply forecast approved by the Commission reflected the demand forecast from 2021 (the "F21 Forecast") used in PSE's 2021 Clean Energy Implementation Plan (the "2021 CEIP") filed with the Commission in Docket UE-210795. The forecast demand in the F23 Forecast more accurately reflects increased electric demand and provides a more informed and accurate forecast of demand over the four-year compliance period than the demand in the F21 Forecast.

11. The four-year resource supply forecast presented in this Petition and Exhibit A includes updates to the forecast resource supply from coal and natural gas resources. The original four-year demand and resource supply forecast approved by the Commission reflected the resource supply forecast used in PSE's 2021 CEIP, which PSE formulated during a period that had different market conditions. The revised forecasts of resource supply from coal and natural gas resources in this Petition and Exhibit A reflects the forecast of energy from coal and natural gas resources in the power costs approved by the Commission in the multiyear rate plan in Dockets UE-220066 & UG-220067.[19] The revised forecast of resource supply from coal and natural gas resources takes into account market conditions observed between October 31, 2022 and now, and thus more accurately reflects increased electric demand and provides a more informed and accurate forecast of PSE's resource supply that will serve retail demand over the four-year compliance period.

III. PETITION FOR APPROVAL

12. PSE hereby submits for approval by the Commission, pursuant to RCW 70A.65.120, a revised four-year demand and resource supply forecast for PSE, reflecting the best estimate of electricity demand and resource supply mix for the first compliance period (calendar years 2023-2026). Attached as Attachment A to this Petition is a revised four-year demand and resource supply forecast for PSE that is consistent with the public interest such as equity and environmental justice as represented in PSE's 2021 CEIP.

A. PSE's Revised Four-Year Demand Forecast for the First Compliance Period (Calendar Years 2023-2026)

13. Table 2 below provides a summary of the revised four-year demand forecast for PSE for the first compliance period (calendar years 2023-2026).

Table 2. PSE's Revised Four-Year Demand Forecast (MWh) for the First Compliance Period (Calendar Years 2023-2026)

		2023	2024	2025	2026
(A)	Total Demand	22,985,346	23,090,114	23,193,531	23,432,894

[19] *WUTC v. Puget Sound Energy*, Final Order 24, Dockets UE-220066 & UG-220067 (Dec. 22, 2022).

This four-year demand forecast for the first compliance period (calendar years 2023-2026) provided in line (A) of Table 2 and in line (A) Exhibit A to this Petition represents PSE's current best estimate of the most likely demand during this first compliance period as required by WAC 173-446-230(2)(a). This forecasted demand reflects PSE's most current forecast (the "F23 Forecast") approved by PSE's Energy Management Committee earlier this year. Finally, the forecast demand in line (A) of Table 2 and in line (A) of Exhibit A incorporates the impact of conservation, including energy efficiency programs, as reflected in the Clean Energy Implementation Plan filed in in Docket UE-210795.

B. PSE's Revised Four-Year Resource Supply Forecast (MWh) for the First Compliance Period (Calendar Years 2023-2026)

14. Table 3 below provides a summary of PSE's revised four-year resource supply forecast for PSE for the first compliance period (calendar years 2023-2026).

Table 3. PSE's Revised Four-Year Resource Supply Forecast (MWh) for the First Compliance Period (Calendar Years 2023-2026)

		2023	2024	2025	2026
(B)	Renewable and Nonemitting Resources	11,632,960	12,945,951	14,023,469	14,910,418
(C)	Coal Resources	2,715,295	2,534,845	2,506,331	0
(D)	Natural Gas Resources	8,637,091	7,609,318	6,663,730	8,155,886
(E)	Net Unspecified Power Purchases	0	0	0	366,590
(F)	Total Resource Supply	22,985,346	23,090,114	23,193,531	23,432,894

The revised four-year forecast of resource supply for the first compliance period (calendar years 2023-2026) provided in lines (B)-(F) of Table 3 above and in lines (B)-(F) of Exhibit A to this Petition represent PSE's best estimate of the most likely electricity resource mix scenario during the compliance period including, but not limited to, using an assumption of average hydroelectric conditions, as required by WAC 173-446-230(2)(b).

15. The forecast of renewable and nonemitting resources in line (B) of Table 3 and in line (B) of Exhibit A represents the amount of renewable and nonemitting energy that PSE forecasts it will use to serve forecast demand in each year of the four-year compliance period and achieve the interim targets established in the 2021 CEIP and recently approved by the Commission.

16. The forecast of coal resources in line (C) of Table 3 and in line (C) of Exhibit A represents the energy from coal resources that PSE forecasts it will use to serve forecast demand in each year of the four-year compliance period. PSE would note that the forecast of energy from coal resources in line (C) of Table 3 and in line (C) of Exhibit A has modestly increased in comparison to the forecast of resource supply from coal resources previously approved by the Commission in the Final Order and reflected in Table 1. This increase in energy from coal resources reflects the forecast of energy from coal resources in power costs approved by the Commission in the multiyear rate plan in Dockets UE-220066 & UG-220067 and updated market conditions.

17. The forecast of natural gas resources in line (D) of Table 3 and in line (D) of Exhibit A represents the energy from natural gas resources that PSE forecasts it will use to serve demand in each year of the four-year compliance period. PSE would note that the forecast of energy from natural gas resources in line (D) of Table 3 and in line (D) of Exhibit A has considerably increased in comparison to the forecast of energy from natural gas resources approved by the Commission in the Final Order and reflected in Table 1. This increase in energy from natural gas resources reflects the forecast of natural gas resources in power costs approved by the Commission in the multiyear rate plan in Dockets UE-220066 & UG-220067 and updated market conditions.

18. The forecast of unspecified power purchases in line (E) of Table 3 and in line (E) of Exhibit A represents the energy from purchases of unspecified power purchases that PSE forecasts it will use to serve forecast demand in each year of the four-year compliance period. PSE acknowledges that the forecast in line (E) of Table 3 and in line (E) of Exhibit A of no purchases of unspecified power for calendar years 2023, 2024, and 2025, and of modest unspecified power in calendar year 2026 can be misleading without explanation. In actuality, PSE will make considerable purchases of unspecified power in each calendar year during the four-year compliance period to serve demand and balance loads. PSE will also make considerable sales of unspecified power in each calendar year during the four-year compliance period (1) as required to balance system loads to ensure delivery of power and (2) to earn revenue, when possible, from such sales that PSE uses to reduce power costs for PSE's retail customers.

19. Ecology's treatment of purchases and sales of unspecified power in its allocation of no-cost allowances to electric utilities results in the forecast of no or modest unspecified power purchases in line (E) of Table 3 and in line (E) of Exhibit A. In the allocation of no-cost allowances, Ecology has (i) increased an electric utility's resources for purchases of unspecified power, (ii) reduced an electric utility's resources for sales of unspecified resources, and (iii) applied the unspecified emissions factor of 0.4370 metric tons of carbon dioxide equivalent ($MTCO_2e$) to both forms of transactions of unspecified resources. Effectively, this treatment nets purchases of unspecified power with sales of unspecified power.

20. The impact of this netting of purchases and sales of unspecified power affects the resources reflected in line (H) of Table 3 and in line (H) of Exhibit A. If an electric company has an equal number of purchases and sales of unspecified power in a given year, then the transactions of unspecified power will completely offset each other during that year. If an electric company is a net purchaser of unspecified power in a given year (i.e., the electric company purchases more unspecified power than it sells during such year), then the amount by which the purchases of unspecified power is greater than the sales of unspecified power will be used to served demand during that year. If an electric company is a net seller of unspecified power in a given year (i.e., the electric company sells more unspecified power than it purchases during such year), then no unspecified power will serve demand during that year.

21. Accordingly, the zero net unspecified power purchases in calendar years 2023, 2024, and 2025 in the four-year demand and resource supply forecast reflects forecasts in which either (i) PSE has a balanced position of unspecified power purchases and sales or (ii) PSE will be a net seller of unspecified power for each such year. The modest net unspecified power purchases in calendar year 2026 reflects a forecast in which PSE will be a net purchaser of unspecified power for such year. PSE will make considerable purchases and sales of unspecified power during each of the four years of the compliance period. The presentation of unspecified power purchases in line (E) of Table 3 and in line (E) of Exhibit A simply reflects the net result for which

(i) PSE will receive no-cost allowances (if it is a net purchaser of unspecified power) or

(ii) PSE will not receive no-cost allowances (if it is a net seller of unspecified power or has a balanced position of sales and purchases of unspecified power).

C. PSE's Revised Forecast of Emissions Associated with the Revised Four-Year Demand and Resource Supply Forecast for the First Compliance Period (Calendar Years 2023-2026)

22. Table 4 below provides PSE's revised forecast of emissions associated with the revised four-year demand and resource supply forecast for the first compliance period (calendar years 2023-2026).

Table 4. Emissions Associated with the Revised Four-Year Demand and Resource Supply Forecast (MTCO2e)

		2023	2024	2025	2026
(G)	Renewable and Nonemitting Resources	0	0	0	0
(H)	Coal Resources	2,882,015	2,690,485	2,660,220	0
(I)	Natural Gas Resources	3,760,589	3,313,097	2,901,388	3,551,073
(J)	Net Unspecified Power Purchases	0	0	0	160,200
(K)	Total Emissions	6,642,604	6,003,582	5,561,608	3,711,273

The emissions associated with the revised four-year demand and resource supply forecast for the first compliance period (calendar years 2023-2026) provided in lines (G)-(K) of Table 4 above and in lines (G)-(K) of Exhibit A to this Petition represent PSE's best estimate of the most likely emissions associated during the compliance period including, but not limited to, using an assumption of average hydroelectric conditions, as required by WAC 173-446-230(2)(b).

D. PSE's Revised Forecast More Accurately Reflects Current Market Conditions But Will Not Cover PSE's Entire Compliance Obligation Nor the Entire Cost Burden to Customers

23. PSE does not suggest that the emissions reflected in line (K) of Table 4 and in line (K) of Exhibit A will reflect PSE's actual annual emissions during four-year compliance period, but rather these emissions reflect the quantity of no-cost allowances allocable pursuant to Ecology's methodology. Although the statute and Ecology's rules define cost burden identically,[20] Ecology's rules limit the allocation of no-cost allowances to only specific resources projected to serve "retail electric load" by defining retail electric load to match that considered for purposes of the Clean Energy Transformation Act (CETA) under RCW 19.405.020.[21] This definition limits the provision of no-cost allowances to the resource supply that supplies retail customers in a given calendar year and excludes the provision of no-cost allowances for:

(a) emissions from resource supply used to make wholesale power sales,

(b) emissions from resource supply used to balance the bulk electric system,

(c) retail demand supplied by qualifying facilities for which the electric company has an obligation to purchase the output under the Public Utility Regulatory Policies Act, and

(d) retail demand supplied by an electric company's voluntary renewable energy programs.[22]

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[20] Both RCW 70A.65.010(21) and WAC 173-446-020 define the term "cost burden" as "the impact on rates or charges to customers of electric utilities in Washington state for the incremental cost of electricity service to serve load due to the compliance cost for greenhouse gas emissions caused by the program."

[21] WAC 173-446-020 defines the term "retail electric load" by incorporating by reference the definition of "retail electric load" in RCW 19.405.020.

[22] RCW 19.405.020.

24. This limitation in Ecology's rules conflates the statutory intents of CETA and CCA and fails to allocate no-cost allowances for emissions that benefit retail customers and thus impacts rates for retail customers. For example, all of PSE's wholesale power sales benefit retail customers. The two drivers for PSE's wholesale power sales are (1) mandatory sales PSE must conduct as a Balancing Authority under federal law and (2) economic wholesale power sales that provide a financial benefit to customers by lowering power costs.

25. PSE has mandatory responsibilities as a Balancing Authority under federal law that benefit the electric grid and all Washington electric customers. As a Balancing Authority, PSE is responsible for the following activities within the Puget Sound region:

- maintaining the short-term balance among load, generation, and internal and external transfers on the bulk electric system (load-frequency regulation);
- maintaining the longer-term balance among load, generation, and internal and external transfers on the bulk electric system (load following);
- controlling the frequency and time error on the bulk electric system; and
- implementing interchange transactions.

PSE's balancing transactions as a Balancing Authority are necessary for the proper function of the bulk electric system and benefit the State of Washington and all electric customers. PSE's dispatchable resources that balance the bulk electric system are a vital part of the overall working of the state's electrical system. These dispatchable resources must run to balance the bulk electric system during poor hydroelectric conditions, and the emissions from these resources are necessary to maintain the delivery of electricity to all customers in western Washington and not just PSE's retail customers. Under Ecology's methodology, however, PSE will not receive any no-cost allowances to cover emissions associated with these balancing activities, and PSE will need to acquire allowances to cover these emissions.

26. Because of PSE's role as a Balancing Authority, Ecology's approach uniquely saddles PSE's retail customers with costs to acquire allowances for balancing transactions that benefit every electric customer in the State of Washington, thereby creating inequity among Washington electric utility customers. PSE plans to request that Ecology modify its rules to allocate no-cost allowances to electric company's operating within the State of Washington that have responsibilities as a Balancing Authority. Absent an allocation of no-cost allowances, the retail customers of any electric company operating within the State of Washington as a Balancing Authority will unfairly and arbitrarily bear costs of allowances for transactions that benefit all residents of the state.[23]

27. PSE makes economic wholesale power sales for which PSE shares the benefits with retail customers. Ecology's approach limiting the allocation of no-cost allowance to emissions that serve "retail electric load," as defined by RCW 19.405.020, will reduce these economic wholesale power sales, and thus saddle PSE's retail customers with increased power costs. The Commission establishes power costs for PSE's retail rates that do not reflect the full cost of PSE's resources because the power costs approved by the Commission assumes a certain level of wholesale sales. The revenue collected by PSE from these wholesale market sales reduces the revenue requirement for power costs of retail customers. If and to the extent that PSE does not receive no-cost allowances for market sales and must

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[23] The electric companies that operate as Balancing Authorities in Washington are Avista, Chelan County PUD, Douglas County PUD, Grant County PUD, PSE, Seattle City Light, and Tacoma Power. Of these electrical companies, only Avista and PSE have dispatchable resources that are not hydroelectric facilities and can balance the state's grid during periods of poor hydroelectric conditions.

consider the price of allowances in its decisions to make wholesale market sales, the overall volume of and revenues from wholesale market sales will significantly decrease. This decrease in revenues from wholesale market sales will increase the revenue requirement for power costs to serve retail customers.

28. The Commission established the revenue requirement for PSE's power costs for calendar year 2023 during calendar year 2022, when Ecology was developing rules for the CCA. Neither the Commission nor PSE could have anticipated the magnitude of the impact of the CCA on PSE's power supply costs in calendar year 2023, and PSE's retail customers have not yet borne the costs associated with compliance. For example, line (K) of Table 4 and in line (K) of Exhibit A suggests that, if the Commission approves and Ecology honors the forecasts accompanying this Petition, Ecology will allocate 6,642,604 no-cost allowances to PSE for emissions in calendar year 2023. Now that calendar year 2023 is half over, PSE expects that these no-cost allowances will only account for 75% or 80% of PSE's electric compliance obligation for the year. Additional allowances will be necessary to cover emissions resulting from balancing activities, which benefits each resident in the State of Washington, and wholesale market sales, which reduce the retail rates paid by PSE's retail customers. The reduction in PSE's economic wholesale power sales due to the unexpectedly high costs of allowances will likely result in PSE under-recovering power costs for calendar year 2023 because actual wholesale power sales (particularly in the second half of the year) will be markedly lower than the projected wholesale power sales included in PSE's power costs.

E. It Has Not Been Established that Ecology's Allowance Adjustment Mechanism Will Resolve Potential Customer Impacts

29. In its Final Order issued in this proceeding in January, the Commission recognized the adjustment mechanism in WAC 173-446-230(2)(g),[24] to which the Final Order referred as a "true-up" mechanism. PSE understands the intent of this adjustment mechanism is to allow Ecology to adjust the initial allocation of no-cost allowances to account for any differential between actual emissions and the number of no-cost allowances allocated. However, Ecology has neither established rules for the adjustment mechanism nor provided any guidance as to how such adjustment mechanism might work. Given the significant uncertainty regarding how this adjustment mechanism will work and the potential substantial impact on PSE's retail customers if the adjustment mechanism does not resolve shortfalls between actual emissions and no-cost allowances allocated, it is essential that the Commission approve the forecasts set forth in this Petition. Furthermore, by approving this forecast now, as mentioned in the WUTC order, "the true-up mechanism can work as an administrative buffer, rather than as a fix for large discrepancies."[25]

IV. REQUEST FOR RELIEF

30. Pursuant to RCW 70A.65.120(2)(b) and WAC 173-446-230(2)(j), PSE respectfully requests that the Commission approve the revised four-year demand and resource

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[24] WAC 173-446-230(2)(g) states as follows: "The initial allocation of allowances will be adjusted as necessary to account for any differential between the applicable reported greenhouse gas emissions for the prior years for which reporting data are available and verified in accordance with chapter 173-441 WAC and the number of allowances that were allocated for the prior year through this process."

[25] Final Order at ¶ 13.

supply forecasts provided as Exhibit A to this Petition for the first compliance period (calendar years 2023-2026) of the CCA. An Ecology rule expressly contemplates an adjustment to the schedule of no-cost allowances by October 1 to reflect revised information provided by an updated forecast of supply or demand approved by the Commission in a form and manner consistent with the requirements of this section by July 30, 2023.[26] If the Commission takes action and approves this Petition and the forecasts contained herein at or before the Open Meeting scheduled for July 27, 2023, then PSE will have time to submit the revised information to Ecology for an adjustment by October 1, 2023. Accordingly, PSE requests that the Commission exercise all due urgency and approve this Petition and the forecasts contained herein at or before the Open Meeting scheduled for July 27, 2023.

Submitted this 3rd day of July, 2023.

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26 WAC 173-446-230(2)(j) provides as follows: "The schedule of allowances will be updated by October 1st of each calendar year as necessary to accommodate the requirements of the adjustment processes described in this subsection. In addition, if a revised forecast of supply or demand is approved in a form and manner consistent with the requirements of this section by July 30th of the same calendar year, then ecology may adjust the schedule of allowances to reflect the revised information provided by an updated forecast."