

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY,

Petitioner,

For Amendment to Order 01 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 02

GRANTING AMENDMENT TO
ORDER 01

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 2050.¹ 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.² Natural 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

¹ See Climate Commitment Act - Washington State Department of Ecology

² 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.³

- 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.⁴ 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.⁵
- 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 would 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 111.⁶ Second, the deferred accounting treatment that was previously approved in Order 01 under Docket UG-220975 would end. Third, the Company would 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 was requested to be in effect between August 15, 2023, and December 31, 2023. The Commission's Order granting that petition clarified that the effective date of the tariff would be August 15, 2023 rather than August 1, 2023.⁷ On July 31, the Company filed replacement pages for the tariff, clarifying the effective date would be October 1, 2023, which would give the Company enough time to fix its billing system in line with the Commission's Order.⁸
- 5 Under the approved accounting treatment, accrued allowance expenses are 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

³ Dockets UE-220974 and UG-220975, Order 01 at 5 ¶ 25 (Feb. 28, 2023).

⁴ Docket UG-230470.

⁵ *Id.* Order 01, ¶¶ 17-22 at 5-6 (Aug. 3, 2023).

⁶ 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.

⁷ See Docket UG-230470, Order 01 at 5 ¶ 21 (Aug. 3, 2023).

⁸ Tariff Replacement Pages filed July 31, 2023, in Docket UG-230470.

balance, it is recorded as a regulatory liability in FERC account 254, *Other regulatory liabilities*. Interest associated with the CCA allowance purchases is accrued at PSE's actual total cost of debt, which is updated semi-annually. Auction proceeds received are 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 is recorded as a regulatory asset in FERC account 182.3, *Other regulatory assets*. Interest on the regulatory liability associated with the CCA auction accrues at the same rate as the allowance purchases. A representative portion of the pass back in Schedule 111 is applied against the interest receivable/payable on the regulatory liability to amortize the balance.

- 6 On November 22, 2023, PSE filed with the Commission a Petition to Amend Order 01 (Petition) seeking to extend the accounting treatment to be in effect as long as pass-through recovery and pass-back are provided for PSE's compliance with natural gas CCA. The Petition also seeks deferral treatment for Business & Occupation (B&O) Taxes associated with CCA auction proceeds, the recovery for which is included in its Schedule 111 Tariff Filings. And finally, the Company seeks accounting treatment associated with spending on decarbonization projects for low-income, residential, and small business customers that PSE is seeking to be funded from CCA auction proceeds.
- 7 Commission staff (Staff) recommends that the Commission grant the Petition. Staff believes the basis for allowing this accounting treatment of CCA costs and revenues is reasonable.
- 8 The Petition came before the Commission at its regularly scheduled open meeting on December 21, 2023.

DISCUSSION

- 9 Per WAC 480-07-875, the Commission should amend a previously issued order if there are sufficient material changed conditions since the [C]ommission entered the order, and "[h]arm to the petitioner resulting from the order that the [C]ommission did not anticipate when it entered the order". Here, an amended order is necessary in order to true-up customer rates to the appropriate level for 2024 and beyond. Additionally, the requested amendments would address the consideration of the amount withheld for decarbonization projects. Finally, approval of an amended order preserves the CCA auction process and compliance costs for later review while allowing true-up for the proper amounts to be charged to or passed back to customers across each compliance period.

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 amendment to Order 01 that 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 December 21, 2023.
- 16 (7) After reviewing PSE's petition filed in Docket UG-230471 on November 22, 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 to Amend Order 01 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.

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

DATED at Lacey, Washington, and effective December 21, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

KATHY HUNTER
Acting Executive Director and Secretary