

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	)	
	)	Docket UE-22 _____
PUGET SOUND ENERGY	)	
	)	PETITION OF PUGET SOUND ENERGY
For an Order Authorizing Deferred Accounting	)	
Treatment for Puget Sound Energy’s Electric Costs	)	
and Proceeds Associated With the Climate	)	
Commitment Act in RCW 70A.65	)	
<hr/>		

**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 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 480-100-203, 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:

Puget Sound Energy  
Attn: Susan Free  
Director of Revenue Requirements and Regulatory Compliance  
P.O. Box 97034, BEL10W  
Bellevue, WA 98009-9734  
Telephone: (425) 456-2105  
E-mail: susan.free@pse.com

## II. SUMMARY OF PETITION

5. PSE is requesting in this Petition that the Commission approve deferred accounting treatment for its electric operations for: (1) costs associated with purchasing allowances in order to comply with the CCA<sup>1</sup> and (2) proceeds associated with the sales of no cost allowances<sup>2</sup> at Department of Ecology (“the department” or “Ecology”) sanctioned auctions in accordance with the CCA.
6. PSE is still evaluating the requirements of WAC Chap. 173-446 as it relates to PSE’s electric operations. Therefore, PSE is filing this petition in order to preserve its ability to determine the most optimal method for complying with the new rules relating to electric utilities.
7. As the first CCA compliance period begins January 1, 2023, PSE is requesting deferred accounting treatment for any allowance purchase costs or auction proceeds that may be incurred or realized in compliance with the electric provisions of the CCA.
8. Once PSE has participated in CCA related auctions conducted by the department, proceeds are to be directed to purposes for the benefit of customers, as outlined in statute, and overseen by the Commission.<sup>3</sup> Until PSE has knowledge of the actual proceeds of its consignment of no-cost allowances PSE requests deferred accounting treatment for said proceeds.
9. This accounting treatment is necessary in order for PSE to recover any CCA costs incurred that are not included in rates at this time. These costs would not otherwise be recovered. If incurred, one method PSE has identified for recovery would be to make a

---

<sup>1</sup> WAC 173-446-400(6)

<sup>2</sup> WAC 173-446-300(2)(b)(i).

<sup>3</sup> WAC 173-446-230(6)

future filing to request approval of an electric tariff schedules to collect from customer the costs associated with purchasing electric allowances for compliance with the CCA. PSE also requires the requested accounting treatment for auction proceeds in order to be in compliance with the CCA.

10. PSE is not requesting in this Petition that the Commission address: (1) the appropriateness of the aforementioned proposed tariff schedules; or (2) the final rate treatment for recovery of the deferrals requested in this petition. If necessary, PSE will file the tariff schedules, which will include recovery proposals, at a future date. At that time the Commission will have before it the evidence and arguments necessary to address rate treatment issues and thus will be able to rule upon these issues at that time.

### **III. BACKGROUND**

11. Senate Bill 5126, also known as the Climate Commitment Act, which is effective July 25, 2021 and codified in RCW 70A.65, is designed to ensure state 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”.<sup>4</sup> In order to ensure that greenhouse gas 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 greenhouse gas emissions from covered entities and a program to track, verify, and enforce compliance through the use of compliance instruments.

---

<sup>4</sup> RCW 70A.65.005 (1)

12. RCW 70A.65.070 requires the department to commence the program by January 1, 2023, by determining an emissions baseline establishing the proportionate share that the total greenhouse gas emissions of covered entities for the first compliance period bears to the total anthropogenic greenhouse gas 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.
13. Per RCW 70A.65.120, for the benefit of ratepayers, allowances must be allocated at no cost to covered entities that are electric utilities. The department adopted rules under WAC Chap. 173-446, in consultation with the Washington Utilities and Transportation Commission, which established the methods and procedures for allocating allowances to electric utilities. The rules provide for an electric utility to be allocated allowances at no cost based on the cost burden effect of the program.<sup>5</sup> Allowances allocated at no cost to electric utilities may be consigned to auction for the benefit of ratepayers, transferred at no cost to an electric generating facility as described in WAC 173-446-425, deposited for compliance, or a combination of these uses.<sup>6</sup>
14. Per RCW 70A.65.120 (4) and WAC 173-446-300(2)(b)(i) if allowances are auctioned, the resulting revenues must be used for the benefit of ratepayers, which, for investor-owned utilities, will be determined by the utilities and transportation commission, and with the first priority the mitigation of any rate impacts to low-income customers..
15. 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. On December 20, 2022, Ecology announced that the first auction will be held on February 28, 2023.

---

<sup>5</sup> WAC 173-446-230(1)

<sup>6</sup> WAC 173-446-230(6)

#### **IV. JUSTIFICATION FOR DEFERRAL TREATMENT**

16. As noted above, the first CCA compliance period will commence on January 1, 2023, at which time PSE may begin incurring a compliance liability related to the program, depending on its allocation and use of no-cost allowances. Utilizing conservative estimates,<sup>7</sup> the cost of allowances needed for CCA compliance by the electric utility for purposes of this petition could approach \$200 million annually. This significant level of anticipated impact for this state mandated program creates the need for the Commission to provide financial certainty with the approval of this Petition.
17. Additionally, this deferral request is appropriate, as, if the requested deferral accounting is utilized, PSE intends to determine a method for recovery of the costs and proceeds, such as, filing a tariff schedule to address a large portion of the financial risks related to this legislation and ensure customers are being charged for the costs of the CCA associated with the power they use in the period closest as possible to when the usage occurs. With this in mind, the size of the deferrals related to this legislation would remain at reasonable levels once the future recovery procedures are put in place.
18. For all of the stated reasons, it is appropriate to allow deferral treatment for PSE's compliance with the CCA.

#### **V. PROPOSED ACCOUNTING TREATMENT**

19. PSE seeks authorization to defer two components that may be needed for the ultimate operation of an electric program in order to comply with the Climate Commitment Act.

---

<sup>7</sup> A CCA allowance price of \$58.31 per metric ton times 3.3 million metric tons of carbon dioxide-equivalent emissions is used for this estimate. The \$58.31 per metric ton price is based on economic and market analysis conducted by Vivid Economics for the Washington Department of Ecology. The 3.3 million metric tons of carbon dioxide-equivalent emissions is based on the 2023 PSE portfolio model used to estimate power costs in PSE's recent 2022 General Rate Case compliance filing (UE-220066 and UG-220067). Note that this estimate does not include any offsetting benefit of no-cost allowances.

20. First, beginning January 1, 2023, PSE requests to defer the cost of any allowance purchases to comply with the CCA.
21. Second, PSE requests to defer any proceeds from no-cost allowances consigned to auction. As detailed in RCW 70A.65.070 and WAC 173-446-300(2)(b)(i), these proceeds must be used for the benefit of ratepayers, with the first priority the mitigation of any rate impacts to low-income customers.
22. The first deferral entry for the cost of purchasing allowances will be recorded to a regulatory asset in FERC account 182.3 Other Regulatory Asset.
23. The second deferral of proceeds of no-cost allowances consigned to auction will be recorded as a regulatory liability in FERC account 254 Other Regulatory Liabilities.
24. The Company proposes that interest will accrue on the net deferred balance in accounts 182.3 and 254 until fully amortized and that the accrual rate will be at its actual cost of total debt which will be updated semi-annually.

## **VI. REQUEST FOR RELIEF**

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

DATED this 29<sup>th</sup> day of December, 2022.

**Puget Sound Energy**

By */s/ Susan E. Free*  
Susan E. Free  
Director of Revenue Requirements and  
Regulatory Compliance  
Puget Sound Energy  
PO Box 97034, BEL10W  
Bellevue, WA 98009-9734  
425-462-2105 / [susan.free@pse.com](mailto:susan.free@pse.com)