

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	
)	Docket UG-22 _____
PUGET SOUND ENERGY)	
)	PETITION OF PUGET SOUND ENERGY
For an Order Authorizing Deferred Accounting)	
Treatment for Puget Sound Energy’s Natural Gas)	
Costs and Proceeds Associated With the Climate)	
Commitment Act in RCW 70A.65)	
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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 480-90-203, 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:

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II. SUMMARY OF PETITION

5. PSE is requesting in this Petition that the Commission approve deferred accounting treatment for its natural gas operations for: (1) costs associated with purchasing allowances in order to comply with the CCA¹ and (2) proceeds associated with the sales of no cost allowances² at Department of Ecology (“the department” or “Ecology”) sanctioned auctions in accordance with the CCA.
6. In the summer of 2023, PSE intends to request approval of a natural gas tariff schedule to collect from customers the costs associated with purchasing natural gas allowances for compliance with the CCA.
7. As the first CCA compliance period begins January 1, 2023, until PSE is able to collect these charges from natural gas customers, PSE is requesting deferred accounting treatment for these costs.
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.³ 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 CCA costs that are not included in rates at this time. These costs would not otherwise be recovered as the new tariff schedule to collect these costs will not be in effect until after costs have been

¹ WAC 173-446-400(6)

² WAC 173-446-240(3).

³ WAC 173-446-230(6)

incurred. 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. 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”.⁴ 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.
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

⁴ RCW 70A.65.005 (1)

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.65.130, for the benefit of ratepayers, allowances must be allocated at no cost to covered entities that are natural gas utilities. The department adopted rules under WAC 173-446, in consultation with the Washington Utilities and Transportation Commission, which established the methods and procedures for allocating allowances to natural gas utilities. The rules provide for a natural gas utility to be allocated allowances at no cost to cover ninety-three percent of their emissions allocation baseline in year one of the program and decline proportionally with the cap, consistent with RCW 70A.65.070.⁵ Allowances allocated at no cost to natural gas utilities must be consigned to auction for the benefit of ratepayers, deposited for compliance, or a combination of both.⁶ Beginning in 2023, 65 percent of the no cost allowances must be consigned to auction⁷ for the benefit of customers, including at a minimum eliminating any additional cost burden to low-income customers from the implementation of the chapter.⁸ Subsequently, the percentage of allowances consigned to auction must increase by five percent each year until a total of 100 percent is reached.⁹
14. Per RCW 70A.65.130 (2) (b) and WAC 173-446-300(2)(b)(iii)(A) revenues from allowances sold at auction must be returned by providing nonvolumetric credits on ratepayer utility bills, prioritizing low-income customers, or used to minimize cost impacts on low-income, residential, and small business customers through actions that

⁵ WAC 173-446-240(2)

⁶ WAC 173-446-240(3)

⁷ WAC 173-446-300(ii)

⁸ WAC 173-446-300(iii)

⁹ WAC 173-446-300(ii)(A) through (H)

include, but are not limited to, weatherization, decarbonization, conservation and efficiency services, and bill assistance. The customer benefits provided from allowances consigned to auction under this section must be in addition to existing requirements in statute, rule, or other legal requirements.

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.

IV. JUSTIFICATION FOR DEFERRAL TREATMENT

16. As noted above, the first CCA compliance period will commence on January 1, 2023, at which time PSE will begin incurring a compliance liability related to the program.

Utilizing conservative estimates such as the auction price floor,¹⁰ cost of allowances needed for CCA compliance by the natural gas utility for purposes of this petition could approach \$100 million¹¹ 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 PSE intends to file 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 gas 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 tariff filings are put in place.

¹⁰ WAC 173-446-335(1) as updated on page 2 of Washington Cap-and-Invest Program 2023 Auction Notice #1 Issued on December 20, 2022 under Publication No. 22-02-064.

¹¹ Based on allowance purchases to cover 4.1 million metric tons of carbon dioxide-equivalent emissions.

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 of operating a program in order to comply with the Climate Commitment Act.
20. First, beginning January 1, 2023, PSE requests to defer the cost of purchasing allowances to comply with the CCA.
21. Second, PSE requests to defer the proceeds from no-cost allowances consigned to auction. As detailed in RCW 70A.65.070 and WAC 173-446-300(iii)(A), these proceeds must be used to eliminate the additional cost burden of the CCA to low income customers, and be returned to customers by providing nonvolumetric credits on ratepayer utility bills, or used to minimize cost impacts on low-income, residential, and small business customers through actions that include, but are not limited to, weatherization, decarbonization, conservation and efficiency services, and bill assistance.
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 29th day of December, 2022.

Puget Sound Energy

By */s/ Susan E. Free*

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