BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	Docket UE-250321 COMPLIANCE FILING OF PUGET SOUND ENERGY

TABLE OF CONTENTS

I. SUMMARY OF COMPLIANCE FILING

1 Puget Sound Energy ("PSE") respectfully submits this compliance filing to the Washington Utilities and Transportation Commission ("Commission") pursuant to Order 01 in this proceeding,[1] which required PSE to work with interested parties and to file an amended power cost adjustment ("PCA") mechanism proposal incorporating Washington State's Climate Commitment Act ("CCA")[2] compliance in PSE's next PCA filing.[3] This compliance filing includes PSE's proposal for calendar year 2026, after consultation with interested parties, for inclusion of CCA compliance cost recovery for electric operations in the PCA mechanism in a straightforward, clear and transparent manner.

2 This compliance filing includes the following documents:

1) Compliance Filing Report;

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[1] *Washington Utilities and Transportation Commission ("WUTC") v. Puget Sound Energy*, Docket UE-250321, Order 01 (Jul. 25, 2025) ("Order 01").

[2] Climate Commitment Act, 2021 Wash. Sess. Laws, ch. 316, Engrossed Second Substitute Senate Bill 5126 (codified as Chapter 70A.65 RCW).

[3] Order 01, *supra* note 1, at ¶ 20(c). PSE filed a Motion for Clarification on August 4, 2025 (the "Motion for Clarification"), related to paragraph 20(c) of Order 01. At the time of submission of this compliance filing, the Commission has not yet responded to the Motion for Clarification. In its interaction with interested parties as well as in PSE's proposal in this compliance filing, PSE has utilized its understanding of the intent of paragraph 20(c) of Order 01 as outlined in the Motion for Clarification.

2) Attachment A to the Compliance Filing Report: PSE presentation to interested parties during engagement meeting on August 27, 2025;

3) Attachment B to the Compliance Filing Report: PSE presentation to interested parties during engagement meeting on September 15, 2025; and

4) Attachment C to the Compliance Filing Report: PSE's Updated PCA Governing Document which summarizes the PCA mechanism with pertinent changes to incorporate PSE's proposal.

3 PSE consulted with interested parties in August and in September, listening to interested parties' objectives, responding to questions, and providing information about PSE's work on proposal development. See Attachments A and B to this compliance filing for the presentation materials provided to interested parties for each engagement meeting.

4 The following provides a summary of PSE's proposal:

- PSE proposes to include forecasted CCA allowance costs in the PCA mechanism as a variable power cost in baseline rates. This would ensure inclusion of costs associated with CCA compliance for electric operations in the PCA mechanism.[4]

- To account for CCA no-cost allowances provided to PSE by the Washington State Department of Ecology ("Ecology") for the benefit of PSE's electric customers,[5] PSE proposes to use Schedule 111–Electric ("Sch. 111-E") to pass back the value of no-cost allowances used for CCA compliance for electric operations. PSE would pass back the value of such no-cost allowances in amounts equal to the level of CCA allowance costs recovered through the PCA mechanism until there is full utilization of all such no-cost allowances. PSE would include the CCA allowance cost in real-time dispatch decisions for all thermal resources, regardless of

4 *See* Attachment C to this compliance filing report – PSE's Updated PCA Governing Document – which summarizes the PCA mechanism with pertinent changes to incorporate PSE's proposal.

5 *See* RCW 70A.65.120.

whether the dispatch is to serve retail load or to make wholesale market sales.[6]

- PSE proposes that the CCA allowance costs for electric operations included in PCA rates (and the equal and offsetting Sch. 111-E credits) become effective concurrently on January 1, 2026. This proposal would ensure that the net impact of 2026 CCA compliance for electric operations associated with no-cost allowances would be zero on a forecast basis in rates between the two tariff schedules. The net rate impact of the proposal would be zero on a forecast basis because, for calendar year 2026, PSE forecasts that there would be sufficient no-cost allowances to cover the forecasted CCA obligation.

- If PSE has insufficient no-cost allowances to offset the CCA obligation, PSE would charge purchases of additional CCA allowances to the PCA. For calendar year 2026, PSE forecasts that there would be sufficient no-cost allowances to cover the forecasted CCA obligation in the PCA, with no need for PSE to purchase additional allowances.

- PSE would hold any no-cost allowances not required to meet compliance obligations for calendar year 2026 for future approval by the Commission of their ultimate use for the benefit of customers, provided that such use is consistent with the CCA.

- Interest will accrue on the net balance of Sch. 111-E at the FERC rate,[7] which matches the interest rate in place for the PCA mechanism.

5 The benefits of PSE's proposal are as follows:

- The proposal would ensure timely and transparent incorporation of total electric CCA compliance costs in the total cost of power, which results in the alignment of the pass back of wholesale market sales revenues with the recovery of electric CCA allowance costs incurred in connection with those sales, as desired by the Commission.

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6 PSE makes wholesale market sales primarily to sell surplus electricity to other utilities, which benefits PSE's customers by improving grid reliability and efficiency. Participation in wholesale markets also helps PSE to integrate more renewable energy, manage risks, and lower overall power costs for customers.

7 Federal Energy Regulation Commission ("FERC"), *Interest Calculation: Rates and Methodology*, available at https://www.ferc.gov/interest-calculation-rates-and-methodology.

- The proposal would ensure dollar-for-dollar pass back of the total value of electric CCA no-cost allowances allocated by Ecology for the benefit of PSE's electric customers.

- The proposal would allow the treatment of electric CCA compliance costs in the same manner as the underlying power costs and market sales revenues to which they relate.

- The proposal would facilitate intertemporal fairness so that customers pay for CCA compliance costs and realize the mitigating benefits of no-cost allowances as PSE incurs emissions obligations for electric operations.

6 In Order 01, the Commission approved recovery of electric CCA compliance costs in Sch. 111-E for emissions associated with operations beginning January 1, 2023, through July 24, 2025,[8] subject to refund and later prudency determination.[9] In Order 01, the Commission also required PSE to propose a method for recovering the remainder of electric CCA allowance costs for calendar year 2025.[10]

7 For the recovery of the remainder of CCA compliance costs for electric operations for calendar year 2025, if any, PSE proposes to include (i) a true-up of any known information for the period January 1, 2023 through July 24, 2025, and (ii) updated estimates for the remainder of calendar year 2025 (i.e., July 25, 2025, through December 31, 2025) in PSE's next proposed Sch. 111-E tariff filing, anticipated to be made prior to October 31, 2025. PSE expects that Ecology will make a determination on or about October 1, 2025, regarding the number of no-cost allowances allocated for the benefit of PSE electric customers based on the revised demand and resource supply forecast approved by the Commission pursuant to

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[8] Order 01, *supra* note 1, at ¶ 20(a).
[9] Order 01, *supra* note 1, at ¶ 20(b).
[10] Order 01, *supra* note 1, at ¶ 20(c).

RCW 70A.65.120 in Order 03 in Docket UE-220797.[11] A filing on or before October 31, 2025, would allow PSE the opportunity to incorporate any determination of Ecology related to the allocation of no-cost allowances pursuant to the revised demand and resource supply forecast.

8 To effectuate the PSE proposal, PSE plans to file the following:

- On October 1, 2025, and concurrent with the filing of this compliance filing, PSE would file an update to Schedule 95 for calendar year 2026 power costs in Docket UE-250326, as allowed under paragraph 381 in Order 09 in Docket UE-240004 *et al.* (the "2024 GRC Final Order"), for rate changes effective January 1, 2026.[12] This update would include the PSE proposal to include projected CCA allowance costs in PCA baseline rates.

- On or before October 31, 2025, PSE would file an update to Sch. 111-E, for rate changes effective January 1, 2026, to incorporate the projected value of no-cost allowances in an amount equal to and offsetting of the amount of projected CCA allowance costs included in the Schedule 95 filing for calendar year 2026. This filing would also include a true-up of any known information for the period January 1, 2023 through July 24, 2025, and updated estimates of CCA compliance costs for electric operations for the remainder of calendar year 2025 (i.e., July 25, 2025, through December 31, 2025).

- On October 1, 2025, and concurrent with the filing of this compliance filing, PSE would file an accounting petition to implement the PSE proposal.

9 With this compliance filing, PSE respectfully requests the Commission's approval of the proposals in this filing (including Attachment C to this compliance filing report), including the above filings that may appear in other dockets, as compliant with paragraph 20(c) of Order 01.

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[11] *In the Matter of the Petition of Puget Sound Energy for an Order Approving Forecasts Pursuant to RCW 70A.65.120*, Docket UE-220797, Order 03 (July 10, 2025).

[12] *WUTC v. Puget Sound Energy*, Dockets UE-240004 & UG-240005 (consolidated), Order 09 (Jan. 15, 2025). (the "2024 GRC Final Order").

10 All correspondence related to this compliance filing should be directed as follows:

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II. BACKGROUND

A. Overview of Climate Commitment Act and Ecology Rulemaking

11 In 2021, the Washington State Legislature enacted the CCA, which established, among other things, a comprehensive market-based program—referred to as the Cap-and-Invest Program—to reduce greenhouse gas pollution and help achieve 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 consistent with the state limits established in RCW 70A.45.020. Covered entities under the Cap-and Invest Program, such as PSE, are required to secure allowances equal to their emissions either through quarterly auctions hosted by Ecology or on a secondary market and submit them to Ecology for compliance on a schedule identified by Ecology. The Cap-and-Invest Program also establishes a program to track, verify, and enforce compliance with the cap through compliance instruments.

12 The CCA allows electric utilities subject to the Washington Clean Energy Transformation Act ("CETA"),[13] such as PSE, to receive no-cost allowances to mitigate the cost

[13] Clean Energy Transformation Act, 2019 Wash. Sess. Laws, ch. 288, Engrossed Second Substitute Senate Bill 5116 (codified at Chapter 19.405 RCW).

burden of the Cap-and-Invest Program on electricity consumers.[14] The CCA requires Ecology to adopt rules, in consultation with the Commission, establishing the methods and procedures for allocating no-cost allowances for investor-owned electric utilities.[15] Such rules must take into account the cost burden of the Cap-and-Invest Program on electric customers.[16] 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."[17]

13 The CCA also requires Ecology to adopt an allocation schedule by rule for the first compliance period,[18] 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.[19] 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.[20]

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[14] *See* RCW 70A.65.120(1).

[15] *See* RCW 70A.65.120(2). *See also* Department of Ecology's ongoing rulemaking "Chapter 173-441 & 173-446 WAC, Cap-and-Invest Program Updates and Linkage" (initiated on March 31, 2025; rule development phase: April 11, 2024 – Early 2026) to consider amendments to Chapter 173-446 WAC and Chapter 173-441 WAC to make improvements to the implementation of the Cap-and-Invest Program, facilitate the linkage of Washington's carbon market with California-Québec carbon market, as well as make other necessary updates. https://ecology.wa.gov/regulations-permits/laws-rules-rulemaking/rulemaking/wac-173-441-446-cap-and-invest-program-updates-and-linkage?utm_medium=email&utm_source=govdelivery.

[16] *See id*.

[17] *See* RCW 70A.65.010(21).

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

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

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

14 On March 31, 2025, Ecology filed a CR-101 to initiate rulemaking "Chapter 173-441 & 173-446 WAC, Cap-and-Invest Program Updates and Linkage" (the "Ecology Rulemaking") for rule development during the period of April 11, 2024 – Early 2026. The stated intent of the Ecology Rulemaking is to consider amendments to Chapter 173-446 WAC and Chapter 173-441 WAC to improve the implementation of the Cap-and-Invest Program. Such improvements would facilitate the linkage of Washington's carbon market with California-Québec carbon market, as well as make other necessary updates.[21]

B. Original Filing on May 2, 2025

15 On May 2, 2025, PSE filed with the Commission proposed revisions to its WN U-60 Electric Tariff to establish a new Sch. 111-E, Greenhouse Gas Emissions Cap and Invest Adjustment.[22] The new Sch. 111-E would allow PSE to recover costs associated with CCA compliance obligation incurred, or to be incurred, for electric operations for the period beginning January 1, 2023, through December 31, 2025. In the May 2 Filing, PSE proposed to recover the costs incurred for compliance for the first three years of the CCA compliance period over a 17-month period, beginning August 1, 2025, through December 31, 2026.[23] The May 2 Filing noted as follows:

> [B]ecause PSE receives no-cost allowances for forecasted emissions associated with serving its retail electric demand, PSE's estimated and actual allowance obligations are generally associated with emissions from energy PSE has sold (or expects to sell) in wholesale electricity markets. All of the revenue from these sales is returned to customers as a reduction to the variable costs tracked in PSE's Power Cost

[21] *See* Ecology Rulemaking, *supra* note 15.

[22] *Puget Sound Energy's Electric Tariff Revision,* Advice No. 2025-27 (May 2, 2025), Docket UE-250321. https://apiproxy.utc.wa.gov/cases/GetDocument?docID=5&year=2025&docketNumber=250321 (the "May 2 Filing").

[23] *See* May 2 Filing, *supra* note 22, PSE Cover Letter.

Adjustment ("PCA") mechanism. But only a portion of the cost of generating these sales – the cost of fuel consumed by emitting generators – is similarly included in PSE's PCA costs. Costs for CCA allowances are not included in PCA costs. So, while customers have received (or are currently receiving) the full benefit of PSE's wholesale electric sales, the full cost of generating those sales, including the cost of the emissions allowances, is not yet reflected in rates (hence this new tariff). PSE includes the expected cost of emissions allowance purchases in the dispatch cost of emitting resources when they are being used to supply wholesale market sales. This strategy ensures that emitting generation is only sold in the wholesale market if the revenue from such sales is sufficient to cover both the cost of fuel and the expected cost of emissions allowances. PSE estimates that during 2023 and 2024 revenue from wholesale sales of emitting generation exceeded $161 million. The cost of fuel associated with these sales was only $74 million. The $89 million difference, which was already returned to customers, is significantly higher than the cost of CCA allowances for 2023 and 2024 in this Schedule 111 totaling $29.6 million of the total $190.0 request before gross up. This ratemaking treatment is similar to the treatment for Production O&M. PSE's wholesale sales also cover the cost of PSE's Production O&M and, as stated, the wholesale sales flow through PSE's PCA mechanism as an offset to power costs. However, the Production O&M costs themselves are not included in PSE's mechanism, but instead are charged to customers in base rates.[24]

16 PSE based the proposed revenue requirement for the new Sch. 111-E on (i) forward secondary market prices for CCA allowances; (ii) actual CCA obligations for electric operations for calendar year 2023, (iii) preliminary CCA obligations for electric operations for calendar year 2024, and (iv) forecasted CCA obligation for electric operations for calendar year 2025. For each calendar year, PSE calculated allowance obligations for electric operations as equal to the difference between (a) PSE's actual or projected covered emissions for electric operations for such calendar year and (b) no-cost allowances allocated to PSE by Ecology for the benefit of electric customers for such calendar year. The May 2 filing did not include any

[24] May 2 Filing, *supra* note 22, PSE Cover Letter at 2-3.

potential adjustments to PSE's no-cost allowance allocations currently under consideration by Ecology, such as allocations to cover administrative costs of implementing the Cap-and-Invest Program.

17 PSE explained in the May 2 filing that a true-up would be necessary at the beginning of the next recovery period (and potentially through the first four-year CCA compliance period) to capture differences between the forecasted revenue requirement in the initial filing and actual compliance costs. Such differences could include any potential final adjustments by Ecology to PSE's CCA compliance obligation or the allocation of no-cost allowances to PSE for the benefit of electric customers.

C. Revised Filing on July 3, 2025

18 On July 3, 2025,[25] PSE filed a substitute filing to update the revenue requirement included in the May 2 Filing, with the support of Commission Staff, to reflect a reduction in the revenue requirement of approximately $70.9 million, an amount equal to the forecasted value of additional no-cost allowance allocations in the revised demand and resource supply forecast approved by the Commission pursuant to RCW 70A.65.120 in Order 03 in Docket UE-220797. PSE's revised filing included the following changes:

1. This revenue requirement is updated for a potential additional allocation of 1,172,632 allowances PSE may receive for its 2025 obligation from the Washington Department of Ecology based on PSE's petition currently under review in Docket UE-220797, which was filed on April 21, 2025, for a revised forecast of supply and demand pursuant to WAC 173-446-230(c)(i). If PSE does not receive Commission approval in Docket UE-220797 or the Department of Ecology does not provide additional allocation of

[25] *PSE's Revised Electric Tariff Revision,* Advice No. 2025-27 (Jul. 3, 2025), Docket UE-250321 (the "July 3 Filing").

allowances in response to Commission approval of revised forecast, the Company will seek to recover the cost of these 1,172,632 allowances through future electric Schedule 111 filings and only then will it be able to procure the additional required allowances.

2. This revenue requirement is also updated with actual results from the June 2025 auction.[26]

D. Interested Party Comments and Open Meeting on July 24, 2025

19 Interested parties, namely, the Energy Project ("TEP"), the Public Counsel Unit of the Washington Attorney General's Office ("Public Counsel"), and the Alliance of Western Energy Consumers ("AWEC"), submitted comments between July 18 and July 21, 2025. The Commission subsequently summarized these comments in Order 01 as follows:

> This matter came before the Commission at its regularly scheduled July 24, 2025, open meeting. The Commission heard comments from Staff, PSE, Public Counsel, AWEC, and Ecology. The majority of the parties who provided comments expressed concerns related to the inequitable allocation of costs and benefits between customers and shareholders incurred from wholesale energy sales, uncertainty surrounding allowance awards and adjustments by Ecology, the prudency of PSE's acquisition strategy, and affordability.[27]

E. Order 01 on July 25, 2025

20 In Order 01, the Commission issued the following determination in paragraph 20:

> (a) First, we limit PSE's recovery of costs for 2025 under Schedule 111 to those associated with emissions through July 24, 2025, but do not approve recovery of costs for the remainder of 2025, which are more speculative.
>
> (b) Second, any revenues collected consistent with this order shall be collected subject to refund and later prudency determination at the end of the first four-year CCA compliance period.

[26] *See id.*, PSE Cover Letter at 1-2.
[27] Order 01, *supra* note 1, at ¶ 8.

(c) Third, PSE shall work with the parties, convening and identifying a mechanism to address this issue and then file an amended tariff removing from the power cost adjustment mechanism and the CCA compliance cost portion of any wholesale sale, allowing PSE to retain the compliance cost portion of the sale for purchase of allowances associated with the emissions related to those transactions. Any remaining proceeds of those sales will remain in the PCA and shared with customers pursuant to the PCA. The amendment to the PCA mechanism as described in this condition shall be included in the Company's next PCA filing, which shall also include a proposal for recovery of costs for the remainder of 2025.

(d) Fourth, PSE shall file an update with the Commission on September 2, 2025, informing the Commission of progress made in its efforts working with the parties to revise its PCA mechanism pursuant to Paragraph (c) above.[28]

F. Motion for Clarification on August 4, 2025

21 On August 3, 2024, PSE filed a Motion for Clarification of paragraph 20(c) of Order 01.[29] The Motion for Clarification sought clarification on the following two aspects of Commission Order 01:

> PSE seeks clarification on two aspects of the Commission's Order 01—one substantive and the other procedural—"to ensure that the parties know their rights and responsibilities under the final order." That knowledge will facilitate the parties' upcoming discussions, including those held before PSE updates the Commission on September 2, 2025.
>
> *First,* PSE seeks clarification regarding the "mechanism to address this issue and then file an amended tariff removing from the power cost adjustment mechanism and the CCA compliance cost portion of any wholesale sale" in part (c) of paragraph 20 of Order 01.

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28 Order 01, *supra* note 1, at ⁋ 20.

29 *WUTC v. Puget Sound Energy*, Puget Sound Energy's Motion for Clarification, Docket UE-250321 (Aug. 4, 2025) (the "Motion for Clarification"), available at https://apiproxy.utc.wa.gov/cases/GetDocument?docID=108&year=2025&docketNumber=250321.

> *Second,* PSE seeks confirmation that the "PCA filing," also mentioned in part (c) of paragraph 20 of Order 01, refers to PSE's October 2025 Power Cost Update filing under Docket UE-250326.[30]

Regarding the first aspect for clarification, PSE explained and sought Commission confirmation of PSE's understanding of paragraph 20(c) of Order 01:

> Order 01 . . . incorrectly suggests the reasons for PSE's under-recovery of wholesale power costs. PSE is under-recovering wholesale power costs because the PCA mechanism does not currently incorporate CCA compliance costs associated with such wholesale sales.
>
> PSE requests clarification regarding part (c) of paragraph 20 of Order 01, which directs PSE to work with the parties to identify "a mechanism to address this issue"—i.e., the under-recovery discussed above—and thereafter:
>
> > file an amended tariff removing from the power cost adjustment mechanism and the CCA compliance cost portion of any wholesale sale, allowing PSE to retain the compliance cost portion of the sale for purchase of allowances associated with emissions related to those transactions.
>
> PSE interprets the language quoted above as requiring PSE and interested parties to develop a mechanism that would amend the PCA mechanism in a manner that would have PSE credit customers in the PCA with net revenues from wholesale electricity sales in an amount equal to (i) 100 percent of the revenue from such wholesale electricity sales less (ii) the CCA compliance costs associated with such sales. PSE further interprets Order 01 as allowing the parties to develop the particular methodology to best achieve that result. In short, and in an effort to facilitate and streamline the parties' efforts to implement Order 01, PSE asks the Commission to confirm whether PSE's interpretation of part (c) of paragraph 20 is correct.[31]

At the time of filing of this compliance filing, the Commission has not yet acted on the Motion for Clarification. In its interaction with interested parties during engagements in August and

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30 Motion for Clarification, *supra* note 29, at ⁋⁋ 9-11.
31 Motion for Clarification, *supra* note 29, at ⁋⁋ 15-16 (quoting Order 01, *supra* note 1, at ⁋ 20(c)).

September, as well as in PSE's proposal in this compliance filing, PSE has utilized its understanding of the intent of paragraph 20(c) of Order 01 as outlined in the Motion for Clarification.

G. PSE Outreach and Engagement with Interested Parties on Order 01 Compliance

22 Pursuant to paragraph 20(c) of Order 01, PSE convened the interested parties on August 27 and September 15, 2025, to discuss the proposal for recovery of future electric CCA allowance costs in the power cost adjustment mechanism (and Schedule 95). The interested parties in attendance at both meetings included representatives of the Commission Staff, Public Counsel, TEP, and AWEC. Please see Attachment A and B to this compliance filing report for presentations made by PSE at these meetings. Interested parties asked questions and provided feedback during the meetings. After each meeting, PSE collected feedback in written form. PSE orally responded to questions interested parties submitted after the first meeting during the second meeting. PSE also responded by email and held additional one-on-one follow-up meetings with individual parties to address specific questions and/or provide additional explanations. Pursuant to paragraph 20(d) of Order 01, PSE filed an update with the Commission on September 2, 2025, informing the Commission of progress made in its efforts consulting with the interested parties to revise PSE's PCA mechanism pursuant to paragraph 20(c) of Order 01.[32]

[32] *WUTC v. Puget Sound Energy*, PSE's Compliance Filing, Docket UE-250321 (Sep. 2, 2025).

III. PROPOSAL FOR 2026: INCORPORATION OF CCA COMPLIANCE IN PCA

A. Current Issues

23 As PSE described in the May 2 Filing and the Motion for Clarification, the current issue for consideration is that PSE's PCA currently does not reflect any CCA allowance costs in its baseline rates.[33] The cost of CCA compliance was not reflected in the PCA mechanism or anywhere else.[34] While not in PCA rates, PSE has incorporated the cost of the CCA compliance obligation in its real-time dispatch decisions in making wholesale electricity sales because Ecology does not provide any no-cost allowance allocations for wholesale electricity sales.[35] PSE passes through to customers all revenue from wholesale electric sales to offset power costs for PSE's electric customers. Because PCA rates do not reflect CCA compliance costs, PSE has been passing through the amounts needed to cover CCA compliance costs that are embedded in the wholesale market sales to customers that are passed back through PSE's PCA mechanism. In contrast, PSE includes the costs of other variable O&M in its dispatch decisions and passes that through to customers, but PSE separately recovers other variable O&M costs through the decoupling mechanism. No similar mechanism existed for the recovery of CCA compliance costs for electric operations.

24 PSE proposed in the May 2 Filing to collect CCA allowance costs associated with CCA compliance for actual and projected obligations for electric operations for calendar

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33 Pursuant to the 2024 GRC Final Order, *supra* note 12, the decision to exclude CCA allowance costs from the PCA mechanism and defer such costs for future collection was largely due to uncertainty surrounding electric no-cost allowance allocations, and in particular, Ecology's adjustment or "true-up" rules.

34 Motion for Clarification, *supra* note 29, at ⁋ 4.

35 *See* WAC 173-446-230.

years 2023, 2024, and 2025 in a separate newly proposed tariff Sch. 111-E. PSE described the following in the May 2 Filing:

> Note that because PSE receives no-cost allowances for forecasted emissions associated with serving its retail electric demand, PSE's estimated and actual allowance obligations are generally associated with emissions from energy PSE has sold (or expects to sell) in wholesale electricity markets. All of the revenue from these sales is returned to customers as a reduction to the costs tracked in PSE's Power Cost Adjustment ("PCA") mechanism. But only a portion of the cost of generating these sales—the cost of fuel consumed by emitting generators—is similarly included in PSE's PCA costs. Costs for CCA allowances are not included in PCA costs. So, while customers have received (or are currently receiving) the full benefit of PSE's wholesale electric sales, the full cost of generating those sales, including the cost of the allowances, is not yet reflected in rates (hence this new tariff).[36]

25 Additionally, existing Ecology rules concerning CCA no-cost allowance determinations for electric utilities provide no-cost allowances for thermal resources that serve a utility's retail load and include an adjustment mechanism that led to an understanding among electric utilities that Ecology would provide one-to-one no-cost allowances for any emissions directly associated with serving retail load only.[37] Recently, Ecology has held two public engagement workshops discussing forthcoming guidance associated with changes to the electric CCA no-cost allowance allocation process. Although Ecology has not yet finalized guidance regarding their allowance adjustment process for electric utilities, PSE expects Ecology to issue such guidance in October 2025. In presentations at workshops, Ecology has made its intentions relatively clear: Ecology does not intend to adjust a no-cost allowance allocation to electric

[36] *See* May 2 Filing, *supra* note 22, PSE Cover Letter at 2-3.
[37] *See* WAC 173-446-230.

utilities based on actual reported emissions.[38] This suggests that Ecology will not necessarily adjust no-cost allowances to match one-to-one emissions associated with retail sales.

26 PSE's previous understanding of the Ecology rules regarding "true-up" of no-cost allowance allocations for electric utilities indicated that CCA should be included in dispatch only for wholesale sales. New guidance from Ecology, however, appears to supersede this language. Ecology's recent draft guidance WAC 173-446-230(2)(g) indicates that an electric utility can keep (and monetize for benefit of customers) no-cost allowances that are surplus to compliance obligation and that such utility would not be penalized for operational decisions that reduce reported emissions relative to forecast.[39] Assuming there is no Ecology adjustment to allocation of no-cost allowances based on actual emissions, the strategy to minimize power costs for PSE electric customers would be for PSE to include total CCA cost in dispatch cost for all resources (not just those deemed surplus to load), both in setting PCA baseline rates and in real-time dispatch decisions.[40]

B. Proposed Solution: Amend the PCA Mechanism to Incorporate CCA Allowance Costs

27 To comply with Order 01 and provide a proposal that would address the current issues previously discussed, PSE proposes to include forecasted CCA allowance costs for electric operations (including those associated with wholesale market sales) as a variable power cost in the forecasted PCA baseline rate. See Attachment C to this compliance filing report for

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38 *See* Ecology Rulemaking, *supra* note 15. For example, please see slide 50 of the Ecology presentation entitled *Cap-and-Invest Electric utility allocation workshop (July 22, 2025)*, available at https://ecology.wa.gov/getattachment/b219bf6f-930c-4d72-96a0-b8752483a108/ElecAllocation_072225.pdf.

39 *See id.*

40 *See WUTC v. Puget Sound* Energy, Dockets UE-240004 *et al.*, Wilson, Exh. JDW-1T, at 16-20 and 23-26; see also *WUTC v. Puget Sound* Energy, Dockets UE-240004 *et al.*, Mueller, Exh. BDM-23CT, at 24-32.

PSE's Updated PCA Governance Document with pertinent changes to the PCA mechanism to incorporate the proposal. PSE proposes to value the CCA allowance costs for electric operations in the PCA using current market prices for December futures contract, associated with the applicable compliance year, of Washington Carbon Allowances as reported by Nodal Exchange or other more indicative third-party source as may become available.[41]

28 PSE's proposal would net variances between forecast and actual CCA allowance costs for electric operations with other PCA variances. PSE and its customers would share in the net benefit or cost arising from any such variances based on the existing PCA "risk sharing" mechanism through established PCA sharing bands. Once the final actual CCA compliance costs for electric operations are known after a prudency review at the end of the CCA four-year compliance period, PSE would reflect any final adjustments in the PCA mechanism filing, subject to the methodology for adjustments to the PSE outlined in the Updated PCA Governing Document (Attachment C to this compliance filing report), paragraph 11. PSE's proposal would include CCA allowance costs in all dispatch decisions (both in setting PCA baseline rates and in real-time dispatch decisions) related to all thermal resources, regardless of whether the purpose of the dispatch is to serve retail load or make wholesale sales.

C. Covering CCA Obligations: Part 1 – Use No-Cost Allowances to Mitigate CCA Cost Burden in the PCA Mechanism via Matching Credits in Sch. 111-E

29 PSE proposes to pass back the value of available CCA no-cost allowances to electric customers as <u>credits</u> in Sch. 111-E concurrently with Sch. 95 (PCA) rates.[42] This pass

[41] The pricing included in PSE's 2026 Power Cost Update filing (made concurrent with this compliance filing on October 1, 2025) in UE-250326, is the average nodal exchange prices over the 7-days ended September 5, 2025.

[42] The Commission has approved similar treatment for PSE's net proceeds from the sale of Renewable Energy Credits passed back to customers outside of PCA mechanism. *See* PSE Electric Tariff Schedule 137.

back would offset rate impacts to electric customers from the CCA compliance costs in the PCA on a forecast basis. For clarity, PSE would not be consigning no-cost allowances. PSE would use no-cost allowances for CCA compliance purposes, as allowed per the CCA.[43] For accounting and ratemaking purposes, PSE would effectively "purchase" no-cost allowances from customers, pricing the no-cost allowances at the same allowance market prices assumed in the PCA forecast. Should PSE's emissions obligation during a month exceed the emissions obligation included in rates in the power cost forecast used to establish the PCA variable baseline rate, PSE would credit the Sch. 111-E regulatory liability account and debit power costs in an amount equal to the daily average of Nodal exchange[44] market allowance prices for that month multiplied by the volume by which emissions obligation exceeds the forecast. The opposite accounting would be recorded if PSE's emissions obligation for a month was less than the emissions obligation included in the power cost forecast used to establish the PCA variable baseline rate.

30 PSE currently forecasts that there would be sufficient no-cost allowances to offset the CCA allowance costs projected in the PCA for calendar year 2026, with potentially additional no-cost allowances remaining. PSE would record any surplus no-cost allowances remaining in inventory after satisfying the CCA compliance obligation for electric operations, and PSE would submit a proposal for the treatment of these surplus no-cost allowances in a future filing for Commission approval. PSE would accrue interest on the net balance of Sch. 111-

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

[44] Currently, Nodal exchange pricing is the most indicative pricing, but other sources could be used if better sources eventually become available. For instance, in the event that ICE pricing data becomes available to PSE and is determined to be a better source of information, valuations could be done using the more representative data source.

E at the then-applicable FERC interest rate,[45] which matches the interest rate in place for the PCA mechanism.

D. Covering CCA Obligation: Part 2 – Purchase Additional Allowances, as Necessary

31 In the event that PSE needs allowances above the amount of no-cost allowances allocated by Ecology to offset the CCA obligation for the calendar year, PSE would include and charge purchases of additional CCA allowances necessary for compliance to the PCA. Any variances in the cost of these additional allowances between forecast[46] and actual would flow through the variance subject to the PCA sharing bands. For calendar year 2026, PSE forecasts that there would be sufficient no-cost allowances to cover the forecasted CCA obligation in the PCA, with no need for PSE to purchase additional allowances.

E. Proposed Timing of Filings

32 PSE would submit two filings – PCA (Sch. 95) and Sch. 111-E – that request concurrent rates effective January 1, 2026, for recovery and pass back of forecasted CCA allowance costs and the value of no-cost allowances forecasted as necessary to cover CCA obligations for electric operations for calendar year 2026. On a forecast basis, these filings would result in zero net rate impact for 2026 CCA compliance for electric operations between the two tariff schedules, because PSE anticipates there should be sufficient no-cost allowances such that credits in Sch. 111-E would offset any CCA compliance costs for electric operations in the PCA forecast. PSE proposes the Commission approve this proposal for calendar year 2026.

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[45] *See supra* note 7.

[46] If at the time PCA baseline rates are set, the forecast shows a compliance obligation in excess of no-cost allowances, those assumed market purchases will be included in PCA baseline rates at the same assumed price as no-cost allowances.

33 To effectuate the PSE proposal, PSE plans to file the following:

- On October 1, 2025, and concurrent with the filing of this compliance filing, PSE would file an update to Schedule 95 for calendar year 2026 power costs in Docket UE-250326, as allowed under paragraph 381 in the 2024 GRC Final Order, for rate changes effective January 1, 2026.[47] This update would include PSE's proposal to include projected CCA allowance costs in PCA baseline rates.

- On or before October 31, 2025, PSE would file an update to Sch. 111-E, for rate changes effective January 1, 2026, to incorporate the projected value of no-cost allowances in an amount equal to and offsetting of the amount of projected CCA allowance costs included in the Schedule 95 filing mentioned above. This filing would also include a true-up of any known information for the period January 1, 2023 through July 24, 2025, and updated estimates of CCA compliance costs for electric operations for the remainder of calendar year 2025 (i.e., July 25, 2025, through December 31, 2025).

- On October 1, 2025, and concurrent with the filing of this compliance filing, PSE would file an accounting petition to implement the PSE proposal.

34 During PSE's second engagement meeting with interested parties in September,[48] PSE initially indicated that, to effectuate PSE's proposal, PSE may also need to file a petition to amend the 2024 GRC Final Order, in which the Commission declined to require PSE to include CCA compliance costs in the PCA.[49] Examination of the 2024 GRC Final Order, however, reveals that the Commission did not order PSE not to include CCA costs in the PCA. Rather, the Commission declined to order PSE to include CCA costs in the PCA, as suggested by Commission Staff. Indeed, the Commission expressly allows and encourages PSE to consider different treatment for CCA compliance costs and dispatch logic in the PCA: "However, utilities

[47] 2024 GRC Final Order, *supra* note 12.
[48] *See* Attachment B to this compliance filing report, at 13.
[49] 2024 GRC Final Order, *supra* note 1212, at ⁋⁋ 135-36.

subject to the CCA, including PSE, should consider accounting for the prices and costs as Staff has proposed."[50]

35 Additionally, during the same PSE engagement meeting with interested parties in September,[51] PSE initially indicated that, to effectuate PSE's proposal, PSE may also need to file a petition to amend the 2013 PCA Settlement which included the latest PCA Governing Document, approved by Commission Order 11 in Docket UE-130617, effective January 1, 2017.[52] However, upon further review, PSE is instead including the Updated PCA Governance Document as Attachment C to this compliance filing which summarizes the PCA mechanism with pertinent changes to incorporate PSE's proposal to include CCA compliance costs in the PCA for 2026.

F. Benefits of the PSE Proposal

36 The following are benefits of the PSE proposal:

- The PSE proposal aligns timing of recovery of wholesale sales revenue with associated CCA compliance costs.
    - The PSE proposal would ensure timely and transparent incorporation of total CCA compliance costs for electric operations in the total cost of power, which results in the alignment of the pass back of wholesale market sales revenues with the recovery of electric CCA allowance costs incurred in connection with those sales, as desired by the Commission.
    - The PSE proposal would allow the treatment of CCA compliance costs for electric operations in the same manner as the underlying power costs and market sales revenues to which they relate.

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[50] *Id.* at ⁋ 137.
[51] *See* Attachment B to this compliance filing, at 13.
[52] *WUTC v. Puget Sound Energy*, Docket UE-130617, Order 11 (Aug. 7, 2015), Attachment A.

- The PSE proposal would ensure dollar-for-dollar pass back of the total value of CCA no-cost allowances for electric operations allocated by Ecology for the benefit of PSE's electric customers.

- The PSE proposal would facilitate intertemporal fairness so that customers pay for CCA compliance costs and realize the mitigating benefits of no-cost allowances as PSE projects that it would incur the CCA compliance obligation for electric operations.

- The PSE proposal relies on the secondary market for the pricing, but not for the acquisition, of CCA allowances. The PSE proposal avoids problems associated with the infrequency of Ecology auctions coupled with the less than mature secondary market for the purchase of CCA allowances that fails to provide sufficient liquidity to allow PSE to secure CCA allowances to cover a CCA obligation in close proximity to the incurrence of such obligation.

- The PSE proposal anticipates Ecology's indication that it will not true-up the allocation of no-cost allocation to reflect actual results. By including the value of no-cost allowances in Sch. 111-E as credits concurrently offsetting PCA baseline rates and by applying the estimated cost of CCA allowances on all dispatch, PSE no longer must distinguish between retail and wholesale loads in anticipation of true ups to the no-cost allowances allocated by Ecology to PSE.

- The PSE proposal anticipates that its changes may result in surplus no-cost allowances and provides electric customers with the receipt of the full benefit of these no-cost allowances for electric operations. By retaining the value of no-cost allowances in Sch. 111-E, the PSE proposal shelters any surplus no-cost allowances from the sharing bands associated with the PCA mechanism that may otherwise divert some or all of the value of the surplus no-cost allowances to PSE, rather than to customers as intended by the CCA.

- The PSE proposal allows for clear and transparent accounting and tracking of CCA costs and no-cost allowance value.

- The PSE proposal is consistent with changes in optimal real-time dispatch strategy to include CCA compliance costs in all real-time dispatch decision logic.

- The PSE proposal is compliant with the CCA and Ecology rules.
- The PSE proposal addresses compliance requirements identified in Order 01 (as discussed more in the next section).
- The PSE proposal addresses party concerns about cost/revenue mismatch, risk-sharing, emission reduction, and other (see next section for more detail).

IV. THE PSE PROPOSAL COMPLIES WITH ORDER 01

A. How the PSE Proposal Complies with Order 01

37 Paragraph 20(c) of Order 01 requires the following:

> (c) Third, PSE shall work with the parties, convening and identifying a mechanism to address this issue and then file an amended tariff removing from the power cost adjustment mechanism and the CCA compliance cost portion of any wholesale sale, allowing PSE to retain the compliance cost portion of the sale for purchase of allowances associated with the emissions related to those transactions. Any remaining proceeds of those sales will remain in the PCA and shared with customers pursuant to the PCA. The amendment to the PCA mechanism as described in this condition shall be included in the Company's next PCA filing, which shall also include a proposal for recovery of costs for the remainder of 2025.[53]

As discussed previously, PSE filed the Motion for Clarification on August 4, 2025, but, as of the time of the submission of this compliance filing, the Commission had not yet acted on such motion. In its interaction with interested parties during engagements in August and September, as well as in PSE's proposal in this compliance filing, PSE has acted in accordance with its understanding of the intent of paragraph 20(c) as outlined in the Motion for Clarification.

38 The PSE proposal complies with Order 01 because it includes CCA compliance costs in customer rates through the PCA and aligns real-time dispatch decisions, CCA

[53] Order 01, *supra* note 1, at ⁋ 20(c).

compliance costs, and revenues in the same recovery mechanism. This ensures that the portion of any wholesale sales revenue collected to cover CCA compliance costs is used to offset those costs directly, as desired by the Commission. The PSE proposal also provides electric customers with 100% of the value of no-cost allowances allocated to PSE by Ecology.

39 Furthermore, the PSE proposal addresses the Commission's concerns about costs being in multiple different locations and solves for more recent understanding that CCA no-cost allowance allocation will not exactly equal actual emissions associated with retail sales. If PSE were to include only CCA allowance costs associated with wholesale market sales in the PCA, there would exist the real possibility that PSE might have to return to the Commission and request recovery of CCA obligation costs for electric operations not covered by no-cost allowances. If PSE were not to include CCA allowances costs in the PCA, PSE may need to request recovery of any costs of compliance to cover the difference between forecast retail load and actual retail load in a separate cost recovery mechanism.

B. How the PSE Proposal Meets Party Concerns

40 The PSE proposal addresses party concerns as follows:

- The PSE proposal solves the cost/revenue mismatch between the treatment of revenues and costs associated with energy transactions.
- The PSE proposal incorporates "risk sharing" through the PCA sharing bands.
- The PSE proposal encourages emission reductions by including the total cost of CCA compliance into the PCA and including a CCA adder on real-time dispatch associated with thermal generation resources.
- The PSE proposal creates consistency between PCA forecast modeling and real-time dispatch decisions by including total CCA allowances costs

in PCA forecast dispatch modeling and matching this in real-time dispatch.

V. PROPOSAL TO RECOVER REMAINING 2025 COSTS

41 Regarding the recovery of the remainder of CCA compliance costs for electric operations for calendar year 2025, if any, PSE proposes to include (i) a true-up of any known information for the period January 1, 2023 through July 24, 2025, and (ii) updated estimates for the remainder of calendar year 2025 (i.e., July 25, 2025, through December 31, 2025) in PSE's next proposed Sch. 111-E tariff filing that PSE plans to file with the Commission on or before October 31, 2025, for rates effective January 1, 2026, and recovery over calendar year 2026.

42 PSE expects that Ecology will make a determination on or about October 1, 2025, regarding the number of no-cost allowances allocated for the benefit of PSE electric customers based on the revised demand and resource supply forecast approved by the Commission pursuant to RCW 70A.65.120 in Order 03 in Docket UE-220797.[54] A filing on or before October 31, 2025, would allow PSE the opportunity to incorporate any determination of Ecology related to the allocation of no-cost allowances pursuant to the revised demand and resource supply forecast.

43 A true-up would be necessary at the beginning of the next recovery period (and potentially through the first four-year CCA compliance period) to capture differences between the forecasted revenue requirement in the initial filing and actual compliance costs. Such differences could include any potential final adjustments by Ecology to PSE's CCA compliance obligation or the allocation of no-cost allowances to PSE for the benefit of electric customers.

54 *See* Docket UE-220797 Order 03, s*upra* note 11.

ATTACHMENTS

- Attachment A: PSE's presentation to interested parties on August 27, 2025
- Attachment B: PSE's presentation to interested parties on September 15, 2025
- Attachment C: PSE's Updated PCA Governing Document.

DATED this 1st day of October, 2025.

Puget Sound Energy

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