Service Date: August 5, 2026

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making	DOCKET U-210590 POLICY STATEMENT REGARDING RETURN ON POWER PURCHASE AGREEMENTS

INTRODUCTION AND PROCEDURAL BACKGROUND

1. In 2019, the Washington State Legislature enacted the Clean Energy Transformation Act (CETA). Section 2(b) of RCW 80.28.410, one of the provisions amended by CETA, authorizes the Washington Utilities and Transportation Commission (Commission) to allow electric utilities to earn a rate of return on prudent costs incurred under Power Purchase Agreements (PPAs).

2. The text of RCW 80.28.410(2)(b) reads:

> *For the duration of a power purchase agreement, a rate of return of no less than the authorized cost of debt and no greater than the authorized rate of return of the electrical company, which would be multiplied by the operating expense incurred by the electrical company under the power purchase agreement.*

3. On June 17, 2025, the Commission held a workshop under Docket U-210590, reviewing the proposed revised workplan and participants' feedback on Performance Incentive Mechanism (PIM) principles. Participants submitted comments in preparation for the workshop advocating for the Commission to issue guidance on the eligibility of PPAs for a return and the applicable rate within the range established by RCW 80.28.410(2)(b).

4. On July 3, 2025, the Commission issued a notice of a virtual technical workshop and opportunity for comments. This notice included questions regarding the framework to address the appropriate rate of return on PPAs. The Commission received comments from the Alliance of Western Energy Consumers (AWEC), Northwest & Intermountain Power Producers Coalition (NIPPC), Northwest Energy Coalition (NWEC), the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel), Renewable Northwest (RNW), and The Energy Project (TEP). Additionally, Avista Utilities, Puget Sound Energy, Pacific Power d/b/a PacifiCorp, Cascade Natural Gas, and Northwest Natural Gas submitted comments collectively as the Joint Utilities.

5. On December 2, 2025, the Commission held a workshop under Docket U-210590. During the workshop, the Commission proposed a list of issues to address and a schedule for engagement opportunities throughout 2026, including issuing policy guidance regarding the return on PPAs.

6. On March 10, 2026, the Commission issued an additional notice of opportunity for comment, asking participants to comment on numerous factors the Commission should consider in determining a return on PPAs. The Commission received comments from TEP, RNW, NWEC, NIPPC, The Nature Conservancy (TNC), Public Counsel, and AWEC. Additionally, Avista Utilities, Puget Sound Energy, and Pacific Power d/b/a PacifiCorp submitted comments collectively as the Joint Utilities.

7. Public comments regarding the return on PPAs informed the Commission's considerations in developing this policy statement. To keep this guidance concise, the Commission has prepared a synopsis of those comments, which will be filed concurrently in Docket U-210590.

8. Pursuant to RCW 34.05.230 and WAC 480-07-920, the Commission issues this policy statement to provide guidance on the application of RCW 80.28.410(2)(b) to utility requests for a return on PPAs. Through this statement, the Commission seeks to address and mitigate utility bias toward utility-owned resources over PPAs and encourage further innovation in utility approaches to resource adequacy, reliability, affordability, and clean energy transformation for the benefit of Washington customers.

STATEMENT OF COMMISSION POLICY

Preliminary Observations

9. The Commission issues this policy and interpretive statement under the authority granted to Washington state agencies under RCW 34.05.230 and WAC 480-07-920. The purpose of such statements is "to advise the public of its current opinions, approaches, and likely courses of action," and statements are "advisory only," and not binding rules or precedent.[1]

10. The Commission finds that RCW 80.28.410(2)(b) grants the Commission discretionary authority to allow utilities to earn a return on PPAs, rather than a strict mandate to approve a return on all utility PPAs in every situation. Consequently, through this policy statement, the Commission does not automatically grant utilities a return on these

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[1] RCW 34.05.230(1).

agreements. Instead, the Commission will analyze each request for a return on PPAs on a case-by-case basis during rate proceedings. This analysis will rely on a prudence determination and the factors outlined in this policy statement to determine the appropriate amount of the return within the statutory range.

11. Additionally, the Commission, by means of this policy statement, does not evaluate or establish a performance incentive mechanism (PIM) associated with PPAs. A return on PPAs under RCW 80.28.410(2)(b) constitutes a regulatory tool to mitigate the bias toward utility-owned resources, rather than serve as a metric-driven performance reward. Given that the statutorily authorized return on PPAs and a PIM under performance based regulation serve different regulatory purposes, the Commission refrains from addressing whether PPAs warrant PIMs at this time.

12. This Policy Statement provides the Commission's direction to utilities, resource developers, customers, ratepayer advocates, and other interested persons with a shared understanding of the Commission's guidance in applying RCW 80.28.410(2)(b). The following sections will address four main topics. First, mitigating utility bias to enable innovation; second, addressing PPAs as a broad category of offtake agreement; third, identifying eligibility of prudent PPAs for a return; and fourth, setting forth factors used in the Commission's determination of the return amount. Participants provided valuable feedback through workshop participation and written comments addressing a range of issues regarding a return on PPAs. Key topics included bias towards utility-owned resources over PPAs, PPA eligibility for a return, and the specific factors to determine the amount of the return within the statutory range. The Commission appreciates participant engagement on these topics as part of the Commission's broader evaluation of performance based regulation.

Mitigating Utility Bias to Enable Innovation

13. The Commission acknowledges that financial incentives in traditional rate regulation tend to bias utilities towards utility-owned resources over PPAs. Traditionally, regulators do not allow utilities to include PPAs in rate base because contracts are considered operating expenses rather than capital investments. Thus, utilities pass PPA-related costs to customers at cost without the opportunity to earn a return on the expense. Additionally, a heavy reliance on PPAs could affect utilities' credit profiles, as credit rating agencies classify PPAs as financial obligations included in operations and maintenance expenditures. In fact, under the Generally Accepted Accounting Principles (GAAP) and the U.S. Federal Energy Regulatory Commission (FERC) accounting rules, PPA payments (contractual costs) must be expensed in the year the cost occurs and are reported through the utility's income statement. Further, credit rating agencies view a portion of the future payment obligations as debt. This treats the PPA as an off-balance-

sheet commitment, recognizing a long-term financial obligation that, according to standard accounting rules and practice, is not classified as a liability on a utility's ledger. As a result, credit rating agencies calculate an imputed debt, i.e., an estimated debt equivalent assigned to these off-balance-sheet commitments. In turn, this imputed debt can impact certain financial metrics and, in conjunction with other factors, lead to lower credit ratings making it more expensive for the utility to borrow or attract capital. Therefore, when given a choice between two identical projects, the financial structure incentivizes ownership over entering into PPAs.

14. In this context, by authorizing a return on PPAs, the Commission intends to mitigate the bias towards utility-owned resources and level the procurement playing field. Utilities retain significant discretion over procurement and design of requests for proposals, such that bias toward utility-owned projects can remain embedded in the selection process. The opportunity to earn a return on PPAs would mitigate the bias and further enable the evaluation of all resources on their merits and benefits to customers. Therefore, the Commission maintains the requirement that utilities choose resources at the lowest reasonable cost, considering risk, in competitive procurement processes, while mitigating the financial disincentive to enter into PPA contracts. Ultimately, the Commission aims to establish a technology-neutral baseline that enables effective competition across all resource types.

15. Furthermore, authorizing a return on PPAs can support cost containment and long-term affordability for customers. Mitigating bias toward utility-owned infrastructure encourages evaluation of all resource options on an equal footing. Competitive project evaluation can help more cost-effective solutions receive equal weight during competitive procurements. For example, PPAs can shield customers and utilities from market volatility, construction overruns, and operational performance risks.

16. Moreover, mitigating this bias can help advance utility compliance with the clean energy standard and greenhouse gas (GHG) emissions reduction goals under CETA,[2] while ensuring a safe and reliable power supply.[3] Achieving these statutory goals requires innovation in both regulatory and utility practices. From a regulatory perspective, authorizing a return on PPAs modernizes existing financial structures, promoting economic parity between utility-owned resources and third-party contracts. This modernized framework helps foster an innovation-focused economic ecosystem for

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[2] Chapter 19.405 RCW (CETA), specifically the 2030 greenhouse gas-neutral standard (RCW 19.405.040) and the 2045 100% clean electricity standard (RCW 19.405.050).

[3] RCW 19.280.030

utilities to adopt emerging technologies for power generation and grid optimization. Additionally, a CETA-compliant PPA may come online faster than a utility-built resource, thereby offering capacity resources to meet reliability needs and possibly accelerating the clean energy transition. Consequently, utilities are less likely to overlook innovative solutions due to the bias to build.

17. The Commission does not assume that PPAs offer better cost-effectiveness than utility-owned resources; rather, the Commission will evaluate the prudence of utilities' decisions on a case-by-case basis during rate proceedings. However, as we navigate a period of rising energy costs, the Commission commits to using every available regulatory tool, including a return on PPAs, to protect customer bills and mitigate the energy burden. Therefore, allowing utilities to earn a return on PPAs can contribute to derisking Washington's investment climate, fostering utilities' financial health to attract capital at a reasonable cost and, in turn, driving down long-term system costs for customers.

PPAs Include a Broad Category of Offtake Agreements

18. CETA does not define what constitutes a utility or wholesale PPA, as referenced in RCW 80.28.410(2)(b). As a result, the Commission is uncertain whether tolling and third-party storage capacity contracts would be eligible for a return. Therefore, the Commission relies on the purpose of a return on PPAs and CETA's broader legislative intent when interpreting this statute.

19. Allowing a return on PPAs seeks to mitigate utility bias toward utility-owned resources over third-party agreements. Additionally, mitigating the financial disincentive empowers utilities to pursue innovative solutions to advance the clean energy transition in a safe, reliable, and affordable manner. Because tolling and storage capacity contracts enable utilities to secure necessary resources without building or purchasing facilities, allowing a return on a broader scope of prudent offtake agreements helps achieve these purposes.

20. Regarding the legislative intent under CETA, the Commission has discretionary authority to advance the clean energy transition.[4] The Commission identified three sections in RCW 19.405.010 as relevant to determining whether a return on PPAs could also apply to tolling and storage capacity contracts.

21. First, RCW 19.405.010(3) emphasizes that policies should not hinder a speedy transition to clean energy sources. Tolling and storage capacity contracts can allow utilities to

[4] RCW 19.405.010

acquire firm, dispatchable clean energy much faster than by building new generation plants.

22. Second, RCW 19.405.101(4) directs the state to encourage the adoption of clean energy sources while maintaining safe, reliable electricity at stable, affordable rates. Offtake agreements, such as tolling and storage capacity contracts, can be more cost-effective than capital projects, helping mitigate rate impacts on customers.

23. Lastly, RCW 19.405.101(5) highlights the need to empower utilities through regulatory tools to achieve CETA goals. Additionally, this section affirms the Commission's authority to implement flexible regulatory mechanisms to achieve fair, just, reasonable, and sufficient rates.

24. The Commission exercises its discretionary authority to allow utilities to earn a return on a broader scope of prudent offtake agreements. This interpretation applies to comparable third-party contracts, including tolling and storage capacity contracts. This approach helps mitigate the bias towards utility-owned resources and empowers utilities to pursue prudent third-party contracts at the lowest reasonable cost.

25. The interpretation above provides regulatory flexibility to support a variety of similar power procurement strategies. Given that the text of the statute identifies PPAs without defining them, the absence of an explicit statutory definition could introduce some degree of uncertainty as power procurement models evolve. To avoid any question about the application of a return on a power purchase arrangement, clearer statutory language would provide greater regulatory certainty regarding which contract structures qualify for a return. Consequently, the Commission encourages interested persons to pursue a legislative amendment to RCW 80.28.410(2)(b) to codify a more flexible interpretation of eligible contracts. Amending the statute to explicitly allow utilities to earn a return on a broader scope of prudent offtake agreements would address potential ambiguity.

Eligibility of Prudent PPAs for a Return

26. To qualify for a return, PPAs must be prudent as determined by the Commission on a case-by-case basis during general rate cases and other proceedings in which prudence is reviewed. Utilities bear the burden of proof to show that a reasonable Board of Directors and company management would have decided to enter into the agreement.[5] To meet the prudence standard, utilities should include an evaluation of alternative options. Among

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[5] *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-110148 & UG-111049 Order 08 ¶ 408 (May 7, 2012).

other elements,[6] utilities should analyze whether the PPA price reflects the lowest reasonable cost considering the risks and a wide range of commercially available resources. This requirement aligns with utilities' development and compliance demonstration requirements with clean energy implementation plans (CEIPs) under CETA.[7] Utilities must also demonstrate that they kept adequate documentation created during the decision-making process.[8] Additionally, the Commission will not consider short-term PPAs with a duration of less than 12 months as eligible for a return. These short-term PPAs are akin to market purchases and unlikely to meet the lowest reasonable cost criterion.

27. All prudent PPAs sourced from CETA-compliant resources qualify for a return. CETA establishes phased decarbonization mandates and identifies compliant resources to achieve them. As an example, PPAs sourced from coal-fired resources would not be prudent or eligible for a return.[9]

28. Utilities must plan to achieve GHG neutrality by January 1, 2030,[10] and deliver power sourced exclusively from non-emitting electric generation[11] and renewable[12] resources by January 1, 2045.[13] As these deadlines approach, utilities requesting a return on PPAs sourced from natural gas,[14] unspecified electricity,[15] and allowed fossil fuels[16] must justify the prudence of these PPAs and demonstrate that they are on track to meet the decarbonization mandates. For example, utilities should demonstrate why such PPAs fill resource adequacy and reliability gaps to meet the decarbonization goals by the respective deadlines. After the 2030 and 2045 deadlines, only PPAs sourced by the

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[6] *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-110148 & UG-111049 Order 08 ¶ 409 (May 7, 2012).

[7] WAC 480-100-605. RCW 19.405.060.

[8] *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-110148 & UG-111049 Order 08 ¶ 409 (May 7, 2012).

[9] RCW 19.405.030.

[10] RCW 19.405.040.

[11] RCW 19.405.020(27).

[12] RCW 19.405.020(33).

[13] RCW 19.405.050.

[14] RCW 19.405.020(26).

[15] RCW 19.405.020(38).

[16] RCW 19.405.020(19).

resources established in RCW 19.405.040 and RCW 19.405.050, respectively, will be eligible for a return.

29. The Commission will consider a PPA's eligibility regardless of whether the source is newly constructed or government owned. The primary purpose of a return on PPAs is to mitigate the bias towards utility-owned resources, regardless of ownership or resource vintage. As long as it is a prudent PPA sourced from CETA-compliant resources and supports the clean energy transition in a safe, reliable, and affordable manner, the Commission will deem it eligible for a return.

Factors Used in Commission Determination of the Return Amount

30. As a baseline, the Commission will consider allowing the utility to earn the utility's authorized cost of debt as the default amount of return for eligible PPAs. This mitigates the bias toward utility-owned resources and the credit risk utilities face when acquiring power through third-party agreements.

31. Under a revenue-requirement-only settlement, often called a results-only settlement, parties agree to the total amount a utility can earn without detailing individual costs, expenses, and other financial figures. However, parties must still specify and justify the precise amount of the proposed return on any PPA. If the PPA is determined to be prudent, and the parties omit this data or fail to provide a clear explanation, the Commission will set the return at the utility's authorized cost of debt approved in the most recent rate case.

32. The Commission will consider awarding a higher amount of return on eligible PPAs that advance the clean energy transition in a safe, reliable, and affordable manner under CETA, within the statutory range established in RCW 80.28.410(2)(b). The Commission will determine the increased return amount on a case-by-case basis during rate proceedings, considering various factors. The list of factors outlined below is not exhaustive because the Commission cannot anticipate every unique contracting variation or innovative structure utilities may propose. To support a comprehensive project design, the Commission will consider authorizing a progressively higher return amount within the statutory range as the PPA subject to review stacks more of these factors.

33. The Commission will consider a higher return on PPAs that deliver firm non-emitting energy, integrate distributed energy resources (DERs), support demand response programs, and minimize transmission risks. The Commission considers the contract term a relevant factor in determining the amount of return, generally favoring longer-term PPAs that align with the lead time required to build an equivalent utility-owned resource of similar capacity and quality. However, the Commission provides utilities with the

opportunity to justify higher returns for shorter-term PPAs. To earn an increased return, utilities must demonstrate that such shorter-term PPAs meet reliability needs and increases in customer bills, serving as a transitional bridge to comply with CETA's decarbonization mandate.

34. The Commission acknowledges the challenge of quantifying specific benefits to Named Communities when utilities procure third-party resources that serve customers at a system level. However, the Commission will consider authorizing a higher return within the statutory range for eligible PPAs that allocate resources directly to Named Communities. Utilities must demonstrate that the PPA is part of a program that prioritizes the enrollment of Named Community members, such as a community solar program.

CONCLUSION

35. The Commission issues this policy statement under RCW 34.05.230 and WAC 480-07-920 to provide guidance regarding the application of the return on PPAs under RCW 80.28.410(2)(b). This policy statement does not constitute an order binding upon either the Commission or the parties that may come before it in future activities within this docket or formal proceedings, nor is this policy statement an enforceable rule.

DATED at Lacey, Washington, and effective August 5, 2026.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

BRIAN J. RYBARIK, Chair

ANN E. RENDAHL, Commissioner

MILT DOUMIT, Commissioner