Service Date: December 19, 2025

BEFORE THE WASHINGTON
UTLITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY Respondent.	DOCKET UE-240729 FINAL ORDER 05 REJECTING TARIFF SHEETS; AUTHORIZING AND REQUIRING COMPLIANCE FILING

Synopsis: *The Washington Utilities and Transportation Commission rejects the tariff sheets field by Puget Sound Energy (PSE or the Company) filed on September 30, 2024, and allowed to provisionally go into effect subject to refund. The Commission has considered the full record and requires PSE to file tariff sheets that will result in a decrease in revenue of approximately $6,843,705 or 0.08 percent in accordance with the decisions in this Order summarized below, subject to the true-up required by this Order. The Commission concludes that Colstrip Units 3 and 4 will be "retired" within the meaning of CETA when PSE transfers its ownership in those units to NorthWestern Energy Corporation (NorthWestern) on January 1, 2026. The Commission further determines that the Abandonment and Acquisition Agreement (A&A Agreement) is not subject to Commission approval because Colstrip is not useful or necessary for PSE's service in Washington at the time of transfer. However, the Commission establishes a condition to facilitate review of future property transfers to comply with CETA. The Commission determines that PSE's Colstrip investments are not used and useful after December 31, 2025, and that such investments should be prorated, with the exception of six investments in support of human health and safety. The Commission further requires PSE to establish the in-service dates of two other investments, the U4 Generator Exciter and the Northern Cheyenne AAQ System, to establish the prorated level of recovery, if any. The Commission determines that PSE has demonstrated that the prorated portion of its Colstrip investments are prudent, other than its investment in the TOFA SmartBurn component and four projects that lack a capital justification. The Commission further finds that the annual amortization amount associated with the 2024 Colstrip outage should be adjusted to $1,603,174. The Commission finds that PSE should be required to refund over-collected amounts in the manner described in this Order. The Commission further requires PSE to file an accounting of its 2025 Colstrip investments as part of its Sch. 141COL annual filing,*

consistent with the decisions in this Order, to allow for review of its 2025 Colstrip investments.

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PROCEDURAL HISTORY

1 On September 30, 2024, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) a proposed revision to rates under the established Colstrip Adjustment Rider Schedule 141COL. PSE requested an annual revenue increase of $4.1 million, or 0.14 percent, which for the typical residential customer using 800 kWh per month would be a rate increase of $.18 or 0.16 percent.

2 On December 19, 2024, this matter came before the Commission at the Open Meeting. Commission staff (Staff) raised concerns about a number of capital investments reflected in the filing that are potentially unrecoverable by law or imprudent for Washington ratepayers. The Commission entered Order 01 Complaint and Order Allowing Rates Subject to Later Review and Refund; Setting Matter for Adjudication (Order 01) in this docket, requiring PSE to file revised tariff pages no later than December 23, 2024, with an effective date of January 1, 2025, indicating that the increased rates would go into effect on January 1, 2025, subject to refund.[1] The Company was directed by Order 01 to file revised tariff pages, which the Company complied with on December 20, 2024.

[1] On December 23, 2024, the Commission issued an errata to Order 01 and a revised Order 01. The revision did not affect the substantive terms or determinations in Order 01.

3 On February 27, 2025, Alliance of Western Energy Consumers (AWEC) filed its Petition to Intervene, arguing that it has a substantial interest in this proceeding based on its participation in the establishment of the Colstrip Adjustment Rider Schedule and the impacts of proposed rate increases on AWEC members who purchase power from PSE.[2]

4 On March 6, 2025, NW Energy Coalition (NWEC) filed its Petition to Intervene arguing that it has a substantial interest in this proceeding based upon its historic and ongoing work with utility companies to promote a clean, reliable, affordable, and equitable energy future.

5 On March 12, 2025, the Commission convened a virtual prehearing conference before Administrative Law Judges (ALJ) Harry Fukano and Jessica Kruszewski. At the hearing the presiding ALJ granted AWEC and NWEC's unopposed petitions to intervene in this matter.

6 On March 26, 2025, the Commission entered Order 03, Prehearing Conference Order and Notice of Hybrid Evidentiary Hearing (Order 03), which set an evidentiary hearing for September 3, 2025, at 9:30 a.m.

7 On April 4, 2025, the Commission issued a Notice of Revised Procedural Schedule at the request of PSE to revise the date of the initial settlement conference to April 16, 2025, and for PSE's initial testimony to be due on April 22, 2025. No party opposed PSE's request to modify the procedural schedule.

8 On August 28, 2025, the Commission held a combined virtual public comment hearing in Dockets UE-240729 and UG-240884. Eight participants voiced opposition to PSE's requests for cost recovery in this docket.[3]

9 In addition to the virtual public comments, the Commission and Public Counsel received a total of forty-six written comments with forty opposed, two in favor, and four undecided. Of these commenters, many PSE customers raised concerns about increases in rates while living on a fixed income.[4]

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[2] *WUTC v. Puget Sound Energy*, Dockets UE-220066 & UG-220067 (*consolidated*), and Docket UG-210918 Order 24/10 (Dec. 22, 2022).

[3] *WUTC v. Puget Sound Energy*, Docket UE-240729, Virtual Public Comment Hearing Recording (Aug. 29, 2025).

[4] *WUTC v. Puget Sound Energy*, Docket UE-240729, Comment Matrix Attachment A (Sept. 17, 2025).

10 On September 3, 2025, the Commission convened a hybrid evidentiary hearing before the Commissioners that was presided over by ALJ's Harry Fukano and Jessica Kruszewski.

11 On September 5, 2025, the Commission issued Notice of Bench Requests (BR) 1-4 requesting additional information from the parties with a deadline for responses to BR 1-3 set for September 10, 2025, at 5:00 p.m., and set a deadline for replies from non-company parties to the company's response to BR 1 for September 17, 2025. The deadline for responses to BR 4 was set for September 17, 2025. The Company submitted supplemental responses to BRs 3 and 4 on October 2, 2025.

12 On October 10, 2025, the Commission issued a Notice requesting supplemental briefing from the parties in relation to the interpretation of RCW 19.405.020 to aid the Commission in its decision-making with a deadline for set for October 24, 2025, at 5:00 p.m.

13 On October 21, 2025, the Commission issued BR 5-6 asking the Company to clarify additional questions it had in relation to the Company's investment into SmartBurn and its NOx control system.

14 **PARTY REPRESENTATIVES.** Donna L. Barnett of Perkins, Coie LLP, represents PSE. Nash Callaghan and Josephine Strauss, Assistant Attorneys General, represent Staff.[5] Tad Robinson O'Neill, Jessica Johanson-Kubin, and Robert Sykes, Assistant Attorneys General, represent the Public Counsel Unit of the Attorney General's Office (Public Counsel). Sommer Moser and Michelle Madsen of Pepple Moser, P.C., represent AWEC. Yochanan Zakai and Orran Balagopalan of Shute, Mihaly & Weinberger, represent NWEC.

BACKGROUND

15 **Clean Energy Transformation Act (CETA).** In 2019, the Washington State Legislature passed the Clean Energy Transformation Act (CETA),[6] codified in chapter 19.405 of the Revised Code of Washington (RCW). In the face of immediate and significant threats posed by climate change, CETA requires that each Washington electric utility "eliminate coal-fired resources from its allocation of electricity" no later than December 31, 2025,[7] that all retail sales of electricity are "one hundred percent carbon-neutral by January 1,

[5] In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To ensure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

[6] Laws of 2019, ch. 288, §§ 1–13 and 26. Codified as chapter 19.405 RCW.

[7] RCW 19.405.030(1). *See also* RCW 19.405.020(1)

2030,"[8] and that by January 1, 2045 "one hundred percent of all sales of electricity to Washington retail customers" are supplied by either non-emitting or renewable electricity generation resources.[9] CETA promotes a transition to a clean energy economy,[10] provides incentives for clean alternative energy sources,[11] and expands the meaning of "public interest" under Title 80 RCW.[12] However, CETA's requirement for each utility to eliminate coal-fired resources from its allocation of electricity "does not include costs associated with decommissioning and remediation of these facilities" provided the Commission deems these costs to be prudently incurred.[13]

16 **Colstrip, Ownership and Operations Agreement (O&O Agreement), and Development of the Abandonment and Acquisition Agreement (A&A Agreement).** This case concerns the recovery of PSE's portion of investments in the Colstrip Steam Electric Station (Colstrip). Colstrip was a four-unit coal-fired electric generation facility operated by Talen MT (Talen) and located in Colstrip, Montana.[14] Colstrip Units 1 and 2 were closed in January 2020.[15] At present, PSE owns 25 percent of the remaining Colstrip Units 3 and 4, with the other 75 percent divided among other entities as follows:[16]

	Colstrip Unit 3	**Colstrip Unit 4**
Avista Corporation	15%	15%
NorthWestern Energy Corporation	--	30%
PacifiCorp	10%	10%
Puget Sound Energy	25%	25%
Portland General Electric Company	20%	20%
Talen MT	30%	--

[8] RCW 19.405.010(2); RCW 19.405.040(1).

[9] RCW 19.405.010(2); RCW 19.405.050(1).

[10] RCW 19.405.010(1).

[11] RCW 19.405.010(4).

[12] RCW 19.405.010(6). In enacting CETA, the Legislature found that the public interest includes: (a) the "equitable distribution of energy benefits and reduction of burdens to vulnerable populations and highly impacts communities;" (b) "long-term and short-term public health, economic, and environmental benefits;" and (c) "the reduction of costs and risks and energy security and resiliency."

[13] RCW 19.405.030(1)(a)-(b).

[14] Atwood, Exh. NLA-1T at 2:9, 7:3-4, 8:19.

[15] Atwood, Exh. NLA-1T at 7:3-4, 12-13.

[16] Atwood, Exh. NLA-1T at 7:3-9.

17 The owners of Colstrip Units 3 and 4 operate under the terms of the Common Facilities Agreement which describes ownership interests, among other things.[17] Contracts relating to Colstrip Units 1 and 2 expired when the units were closed.[18] Additionally, the owners of Colstrip Units 3 and 4 operate under the O&O Agreement, which was entered into in 1981 and continues to govern the operation of the Colstrip units.[19] Under the O&O Agreement, PSE must fund costs to operate and maintain Colstrip Units 3 and 4 as long as the Company holds any ownership shares. [20] This includes requiring each owner to provide the plant with enough coal to generate the owner's share of the plant's minimum operating capacity.[21] Each year, the owners of the Colstrip units must approve a budget, but because PSE holds 25% ownership, it is not the sole entity approving or denying a budget with a minority vote.[22]

18 To comply with CETA's mandate to have coal-fired generation removed from its allocation of electricity by December 31, 2025, PSE has made several prior attempts to sell or dispose of Colstrip Units 3 and 4. PSE first entered into an agreement with NorthWestern in 2019 to sell Colstrip Units 3 and 4 with a purchase price and an exchange of rights on the Colstrip transmission system, but withdrew the agreement after pushback.[23] In a second attempt, in 2022, PSE and Talen worked out an abandonment agreement but the transfer did not occur as Talen went through a bankruptcy in 2024.[24] Talen did not get approval of the PSE abandonment agreement in the bankruptcy, so the agreement was invalidated.[25] PSE then entered into the A&A Agreement with NorthWestern to transfer its interest in Colstrip Units 3 and 4.[26] PSE entered into this agreement without seeking Commission approval.[27] The transfer will occur at 12:00 a.m. on January 1, 2026, Pacific Standard Time.[28]

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[17] Atwood, Exh. NLA-1T at 7:12-13.

[18] Atwood, Exh. NLA-1T at 7:12-14.

[19] Atwood, Exh. NLA-1T at 7:16-18; Atwood, Exh. NLA-4.

[20] Atwood, Exh. NLA-1T at 8:3-4.

[21] Atwood, Exh. NLA-1T at 8:3-7.

[22] Atwood, Exh. NLA-1T at 9:14-20, 16:12-21.

[23] TR Roberts at 94:20-25, 95:1-8; Atwood, Exh. NLA-1T at 19:8-10.

[24] TR Roberts at 95:9-20; Atwood, Exh. NLA-1T at 19:11-22.

[25] Atwood, Exh. NLA-1T at 19:11-22.

[26] Atwood, Exh. NLA-1T at 19:6-22.

[27] Mullins Exh. BGM-1T at 2:10-16.

[28] PSE's Response to BR 3.

I. Applicable Law

19 The Legislature has entrusted the Commission with broad discretion to regulate and set rates in the public interest[29] that are just, fair, reasonable and sufficient,[30] and to balance the needs of the public to have safe, reliable, and appropriately priced services, while also assuring that the utilities earn enough to remain in business.[31] The Commission has previously interpreted the fair, just, reasonable, and sufficient standard to mean that "rates that are *fair* to customers and to the Company's owners; *just* in the sense of being based solely on the record developed in a rate proceeding; *reasonable* in light of the range of possible outcomes supported by the evidence; and *sufficient* to meet the needs of the Company to cover its expenses and attract necessary capital on reasonable terms."[32]

20 However, if after hearing the Commission finds that the rates charged by the utility are:

> . . . unjust, unreasonable, unjustly discriminatory or unduly preferential, or in any wise in violation of the provisions of the law, or that such rates or charges are insufficient to yield a reasonable compensation for the service rendered, the commission shall determine the just, reasonable, or sufficient rates, charges, regulations, practices or contracts to be thereafter observed and in force, and shall fix the same by order.[33]

21 For proposed rates, as in this case, the Commission may enter an order under this same standard as if the proposed rates were already effective.[34]

22 As a general matter, the burden of proving that a proposed increase is just and reasonable is upon the public service company,[35] and the burden of proving that the presently effective rates are unreasonable rests upon any party challenging those rates.[36]

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[29] RCW 80.01.040(3).

[30] RCW 80.28.010.

[31] *People's Org. for Wash, Energy Res. v. WUTC*, 104 Wn.2d 798, 808 (1985).

[32] *WUTC v. Avista Corp.*, Dockets UE-160228 & UG-160229, Order 06 at 47 ¶ 79 (Dec. 15, 2016) (emphasis in original).

[33] RCW 80.28.020.

[34] RCW 80.04.130(1).

[35] *Id*.

[36] *WUTC v. Pacific Power and Light Company*, Cause No. U-76-18 (Dec. 29, 1976) (internal citations omitted).

23 As discussed above, in 2019, the Legislature expanded the traditional definition of the public interest standard. As Washington state transitions to a clean energy economy, the Legislature provided that the public interest includes: "The equitable distribution of energy benefits and reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-term public health, economic, and environmental benefits and the reduction of costs and risks; and energy security and resiliency."[37] In achieving these policies, "there should not be an increase in environmental health impacts to highly impacted communities."[38]

24 Following the passage of RCW 80.28.425, which requires utilities to file multi-year rate plans when filing a general rate case (GRC), the Commission indicated its commitment to considering equity while regulating in the public interest: "So that the Commission's decisions do not continue to contribute to ongoing systemic harms, we must apply an equity lens in all public interest considerations going forward."[39] The Commission also explained that regulated companies should be prepared to address equity considerations in future cases: "Recognizing that no action is equity-neutral, regulated companies should inquire whether each proposed modification to their rates, practices, or operations corrects or perpetuates inequities."[40]

II. Application of RCW 19.405.030 - Interpretation of "*Retirement*"

25 CETA requires the following:

> The commission must allow in rates, directly or indirectly, amounts on an investor-owned utility's books of account that the commission finds represent prudently incurred undepreciated investment in a fossil fuel generating resource that has been retired from service when:
>
> (a) The retirement is due to ordinary wear and tear, casualties, acts of God, acts of governmental authority, inability to procure or use fuel, termination or expiration of any ownership, or an operation agreement affecting such a fossil fuel generating resource; or
>
> (b) The commission finds that the retirement is in the public interest.

[37] RCW 19.405.010(6).

[38] RCW 19.405.010(6).

[39] *WUTC v. Cascade Natural Gas Corp.*, Docket UG-210755, Order 10 ¶ 58 (Aug. 23, 2022).

[40] *WUTC v. Cascade Natural Gas Corp.*, Docket UG-210755, Order 10 ¶ 58 (Aug. 23, 2022).

26 The Company has argued that a transfer of its ownership rights in Colstrip Units 3 and 4 is a retirement under RCW 19.405.030(3) and is the type of transfer the Legislature had in mind when the statute was drafted.[41] PSE argues that it has done exactly what the statute intended and because the "long-lived plant will be retired by PSE upon transfer of ownership . . . the Commission must allow the cost to invest in that plant to be recovered either directly or indirectly in rates, as the law requires."[42] PSE alleges that this treatment applies to 2024 and 2025 plant additions, which will become unrecovered plant as of December 2025.[43]

27 NWEC argues that the Commission should apply the dictionary definition of "retirement" so that in the context of this case, retirement would mean that Colstrip ceases to produce electricity. To support its contention that the Company interprets "retirement" similarly to NWEC, NWEC points to PSE's Colstrip FACTS Frequently Asked Questions webpage, in which PSE states that "there are no plans to retire Colstrip Units 3 & 4" and that only Units 1 and 2 have been.[44] Further, NWEC contends that RCW 19.405.030(3) does not apply to PSE's investments in Colstrip Units 3 and 4 because the statute intended a "financial assurance" that if a company retires a fossil fuel generating resource, as in the resource is no longer working and causing pollution, shareholders would not be asked to write off undepreciated investment.[45] Specifically, NWEC takes the position that CETA intended to incentivize companies to retire fossil fuel plants and that it does not apply to investments that extend the life of the plant beyond 2025.[46] NWEC supports this assertion by noting that "those financial incentives were carefully written in the past tense, so that they only apply after the plant 'has been retired from service.'"[47] Because Colstrip Units 3 and 4 will continue to operate beyond 2025, NWEC argues that they will not be retired as intended by CETA, so RCW 19.405.030(3) does not apply to this proceeding.[48]

28 In applying the language of RCW 19.405.030(3)(a), NWEC contends that "termination or expiration of any ownership" does not independently constitute retirement and that the

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[41] Steuerwalt, Exh. MS-1T at 8:13-16.

[42] Steuerwalt, Exh. MS-1T at 8:13-19.

[43] Steuerwalt, Exh. MS-1T at 8:19-20, 9:1-2.

[44] McCloy, Exh. LCM-1T at 6:6-8.

[45] McCloy, Exh. LCM-1T at 6:11-14.

[46] McCloy, Exh. LCM-1T at 6:14-21.

[47] McCloy, Exh. LCM-1T at 6:20-21, 7:1.

[48] McCloy, Exh. LCM-1T at 7:1-6.

statute lists causes of retirement and does not "define or alter the plain meaning of the word retired."[49] Similarly, NWEC alleges that section (3)(b) of the statute that allows "such treatment if the retirement of the facility is in the public interest[]" does not apply because Colstrip Units 3 and 4 have not been retired, but even if they had, life extending investments are not prudent nor in the public interest [50]

29 Additionally, NWEC argues that CETA requires electric utilities to "eliminate coal-fired resources from their 'allocation of electricity' by December 31, 2025," but "makes an explicit exception for decommissioning and remediation costs."[51] NWEC interprets this to mean that "CETA did not authorize the recovery of undepreciated investment in fossil resources that remain in-service beyond December 31, 2025."[52]

30 Public Counsel takes a similar position to NWEC and argues that Colstrip Units 3 and 4 will not be retired as intended by RCW 19.405.030(3) after December 31, 2025.[53] Further, Public Counsel alleges that RCW 19.405.030(3) does not apply to this proceeding and the Commission should construe the word "retire" according to its plain language meaning, in which case there are no identifiable retirement dates for Colstrip Units 3 and 4.[54]

31 In response to NWEC's assertion that retirement means "cease to work", PSE asserts that NWEC has misapplied the definition of "retire" and that the "accounting definition of retire related to physical assets that is more relevant here."[55] Specifically, PSE contends that an accounting definition is more appropriate and what was contemplated in the legislation because the statute references "depreciation schedules" which utilize the accounting definition of "retirement."[56] PSE offers two accounting definitions of retirement:

> (1) . . . that asset is no longer under the control of that entity . . . [57] , and

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[49] McCloy, Exh. LCM-1T at 7:11-21.

[50] McCloy, Exh. LCM-1T at 8:3-6.

[51] Cebulko, Exh. BTC-1CT at 10:17-20, 11:1-2.

[52] Cebulko, Exh. BTC-1CT at 11:2-6.

[53] Dreyer, Exh. JMD-1CTr at 4:12-18.

[54] Dreyer, Exh. JMD-1CTr at 4:12-16.

[55] Free, Exh. SEF-1T at 2:15-19, 3:1-3.

[56] Free, Exh. SEF-1T at 3:13-17; RCW 19.405.030(2).

[57] Free, Exh. SEF-1T at 4:3-17 (*citing* the master glossary of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification, and Generally Accepted Accounting Principles (GAAP), that defines "retirement" as: "The other-than-temporary removal of a long-lived asset from service. That term encompasses sale, abandonment, recycling, or disposal in some

(2) Retirement of a tangible asset (retirement encompasses its sale, abandonment, recycling or disposal in some other manner) . . .[58]

PSE argues that NWEC's definition of "retire" as "cease to work" is not found within the CETA statute and that NWEC's interpretation "ignores its plain language, and it utilizes a general dictionary definition rather than the specific accounting and regulatory framework that governs utility asset treatment."[59] Further PSE explains that the Financial Accounting Standards Board (FASB) as the authoritative Generally Accepted Accounting Principles (GAAP) source, controls over dictionary definitions in a regulatory context.[60] PSE further asserts that under RCW 19.405.030(3)(a) the term retirement includes "termination or expiration of any ownership"[61] and that the Commission should not be swayed by the restrictions NWEC places on the term retirement as it is used in the statute. [62]

32 The Company argues that CETA intended for coal to be retired from a utility's portfolio with the "financial assurance that shareholders would not be asked to write-off any undepreciated plant investment."[63] The Company asserts that the Legislature expressly included the termination or expiration of ownership to be a cause of retirement and did not include physical cessation of generation as a condition.[64]The Company contends that the central mandate of CETA is to eliminate coal-fired resources from a utility's "'allocation of electricity' by December 31, 2025."[65] To support this contention, the Company asserts that by referencing CETA's use of "depreciation schedules" and "books of account" the Legislature intended for an accounting definition of "retire."[66] The Company also referred to the definition of retirement under Generally Accepted Accounting Principles and by the

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other manner. However, it does not encompass the temporary idling of a long-lived asset. After an entity retires an asset, that asset is no longer under the control of that entity, no longer in existence, or no longer capable of being used in the manner for which the asset was originally acquired, constructed, or developed." https://asc.fasb.org/MasterGlossary).

[58] Free, Exh. SEF-1T at 4:9-17 (*citing* the definition for "retirement" as used by the State of Washington, Office of the Washington State Auditor).

[59] Free, Exh. SEF-1T at 5:1-9.

[60] Free, Exh. SEF-1T at 5:7-9.

[61] Steuerwalt, Exh. MS-1T at 9:18-20; RCW 19.405.030(3)(a)

[62] Steuerwalt, Exh. MS-1T at 9:23-24, 10:1-5.

[63] Brief of PSE at 8 ¶ 17.

[64] Brief of PSE at 8-9 ¶ 18.

[65] Brief of PSE at 9 ¶ 18.

[66] Brief of PSE at 9 ¶ 19.

Washington State Auditor to support CETA's intent for the accounting definition to be used to interpret the term "retire."[67]

33 Public Counsel argues, first, that the Commission should look to the plain language to interpret the word "retirement" in the CETA statute, which is not the accounting definition. Next, Public Counsel emphasizes that the Commission should look to the complete statute and that CETA is concerned with eliminating coal-fired power from Washington's electricity supply and that the primary concern is not depreciation schedules. Using these methods of statutory interpretation, Public Counsel construes "retirement" as used in CETA to mean "end of working life of coal-fired power."[68] The language of RCW 19.405.030(3) allows for recovery of an investment ". . . in a fossil fuel generating resource that has been retired from service . . ." which Public Counsel argues, gives utilities the opportunity to recover on their investments at the time CETA was enacted rather than allowing "companies to accrue millions of dollars of additional life extending costs after CETA was enacted only then to administratively 'retire' the assets on December 31, 2025[.]"[69] Public Counsel stresses that the plain language and spirit of CETA is to provide cost recovery to Washington utilities that close plants, not for transferring assets.[70]

34 In response to the Company's arguments, NWEC asserts "that allowing recovery of undepreciated investment only in fossil resources that *actually cease operations* was 'intended to remove a disincentive for PSE and other Washington owners to retire fossil plants.'"[71] Similar to Public Counsel, NWEC explains that the financial incentives to retire fossil plants were "'carefully written in the past tense' to reflect the Legislature's intention" that recovery of undepreciated investment only occur if the plant "ceased operations."[72]

Commission Determination

35 To understand what the Legislature meant by the word "retire" in CETA, we look to the canons of statutory interpretation. Although NWEC argues that the starting point to interpret a statutory term is to look to its "plain language and ordinary meaning", a technical term should be given its technical meaning rather than its general purpose

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[67] Brief of PSE at 9 ¶ 19; Free, Exh. SEF-1T at 4:3-17.

[68] Brief of Public Counsel at 16 ¶ 50.

[69] Brief of Public Counsel at 16-17 ¶ 52; RCW 19.405.030(3).

[70] Brief of Public Counsel at 16-17 ¶ 52.

[71] Brief of NWEC at 3-4 ¶ 9 (*citing* McCloy, Exh. LCM-1T at 6:14-16).

[72] Brief of NWEC at 3-4 ¶ 9 (*citing* McCloy, Exh. LCM-1T at 6:20-21, 7:1).

dictionary definition.[73] NWEC has provided a narrow scope for defining the term "retire" for the purposes of statutory interpretation and has not considered a technical meaning. In this case, we must also consider "the context of the statute in which that provision is found, related provisions, and the statutory scheme as a whole."[74] Further, we also consider "'all the terms and provisions of the act in relation to the subject of the legislation, the nature of the act, the general object to be accomplished and consequences that would result from construing the particular statute in one way or another.'"[75]

36 Although NWEC has maintained its position that the Commission should apply the dictionary and plain language meaning to the word "retire", NWEC looks to RCW 19.405.010(2) to provide context to the statute. However, RCW 19.405.010(2) refers to transforming Washington's electrical system, which will be accomplished even if Colstrip Units 3 and 4 cease to operate. The Company argues that the statute refers to depreciation schedules to provide context to the intent of the Legislature, and that this is an accounting term. Further, the Company contends that CETA allows for recovery of undepreciated investment when the retirement is caused by the termination or expiration of ownership which demonstrates the Legislature's intent that retirement not be narrowly construed to only mean that the plant is no longer in operation.

37 The Company provided two sources for the accounting definitions for the word "retirement" to guide the Commission in interpreting CETA and identifying whether the Company is able to recover undepreciated investments in Colstrip Units 3 and 4 under RCW 19.405.030(3). Because the statute references depreciation schedules and books of account, the Company has provided the definition used by GAAP, which we find to be a credible source in determining the technical definition of "retire" because it provides the definition as used in regulatory accounting. Further, the Company provides the definition of "retirement" used by the Washington State Auditor's Office, which also considers retirement to be when an asset is no longer controlled by the entity, or controlled by another entity. The Company argues that Colstrip Units 3 and 4 will be retired for PSE under both of these definitions as of January 1, 2026, thus the provisions of RCW 19.405.030(3) apply, and permit the Company to recover its undepreciated investments in Colstrip Units 3 and 4.

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[73] *Tingey v. Haisch,* 159 Wn.2d 652, 658 (2007).

[74] *Taylor v. Burlington N. R.R. Holdings, Inc.*, 193 Wn.2d 611, 614 (2019).

[75] *Burns v. City of Seattle,* 161 Wn.2d 129, 146 (2007) (*citing State v. Krall,* 125 Wn.2d 146, 148 (1994) and *State v. Huntzinger*, 92 Wn.2d 128, 133 (1979)).

38 Because CETA is a relatively new statute without much context and related provisions to help us understand what the Legislature intended with the word "retire", we also consider the object to be accomplished by CETA, which is, among other things, to remove coal-fired resources from Washington's electricity supply by the end of 2025, and perhaps more importantly, the impacts of construing the statute one way or another. Public Counsel has argued that CETA intends to provide incentives to utility companies to close coal-fired plants, which Public Counsel argues is demonstrated by the use of past tense, which means the Company cannot recover any undepreciated investments until after the coal-fired plants are no longer operational. Public Counsel further argues that CETA could not have intended for companies to accrue millions of dollars of additional life extending costs after CETA was enacted only to then transfer the plants rather than fully decommission them. However, we have concerns when we look to the reality of the position the Company is placed in if CETA required it to fully decommission Colstrip Units 3 and 4.

39 The Company is required to maintain the plants and fulfill its contractual obligations to other entities. The Company would be faced with the impossible scenario where CETA requires it to not invest in the plants and to not meet its contractual obligations, which could result in a situation where the Company is required to turn to the market to provide power at a much higher cost to customers. The alternative for the Company is to invest in the plant to ensure its safe and reliable operation until it no longer owns its portion of the plant and meet its contractual obligations, but then to absorb the costs to maintain the plants. We are not persuaded that the Legislature intended for electric utility companies to be responsible for the costs to maintain coal-fired plants to provide electricity to Washington customers and then fully decommission coal-fired plants by the end of December 31, 2025.

40 First, we must determine whether the Company can recover undepreciated investments under RCW 19.405.030(3). NWEC and Public Counsel have both argued that because Colstrip Units 3 and 4 will still be operational as of January 1, 2026, the plant will not be retired by the end of December 31, 2025, and the Company cannot recover its undepreciated investment in the plant. The Company has argued that the Legislature intended the accounting definition of "retire" to apply because the statute references depreciation schedules, books of accounts, and sets a condition of retirement to include termination or expiration of ownership. We find this argument persuasive when we look at the context of the statute. We also agree that the Legislature expressly identified termination or expiration of ownership, but did not include language specifically requiring coal-fired plants to no longer be operational, and find this persuasive in demonstrating that the Legislature intended for an accounting definition of the word "retirement." We do not

agree with NWEC and Public Counsel that the Legislature intended a dictionary definition for the word "retirement" because the statute calls for a technical definition.

41 Next, we consider that the purpose of CETA is to remove coal-fired electricity from Washington's electricity supply by the end of December 31, 2025. That is still accomplished if Colstrip Units 3 and 4 are transferred to NorthWestern and are no longer providing electricity in Washington, even if the plants are not entirely shut down. We have great concern about interpreting RCW 19.405.030(3) to mean the Colstrip Units must cease to operate in order for the Company to recover the investments it made into the plant for which it had a contractual obligation to maintain. If we decide otherwise the Company shareholders would be left having to absorb all of the investments made, which we do not believe was the Legislature's intent. Colstrip Units 3 and 4 are jointly owned so PSE cannot unilaterally choose to "retire" or decommission the plant. Specifically, if the Company had not invested in the maintenance of the plant, the Company would have been in breach of its O&O Agreement with its co-owners and would have had to turn to the market for power, which, based on the evidence presented in this case, likely would have been more costly for PSE's customers than maintenance of the plant.[76] For these reasons, we find it reasonable that the accounting definition should apply in the interpretation of RCW 19.405.030(3). As the Company is under contract to transfer its interest in Colstrip Units 3 and 4 on January 1, 2026, we find that PSE will have retired coal-fired electricity from its electrical supply in Washington and that RCW 19.405.030(3) does not preclude the Company from recovering at least some of the undepreciated investments in Colstrip Units 3 and 4.

III. Asset Transfer

42 PSE entered into the A&A Agreement with NorthWestern on July 30, 2024, to comply with the CETA requirement to no longer include coal-fired power in its allocation of electricity after December 31, 2025. The A&A Agreement transfers PSE's ownership interest in Colstrip Units 3 and 4 by way of abandonment to NorthWestern without a purchase price at 12:00 a.m. on January 1, 2026, Pacific Standard Time.[77] Public Counsel, NWEC, and AWEC raised concerns about the transfer, primarily that the transfer has no purchase price and has not been reviewed or approved by the Commission.[78] Specifically,

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[76] Atwood, Exh. NLA-1T at 16:12-21, 17:5-18; Atwood, Exh. NLA-4.

[77] Mullins, Exh. BGM-3 at 19-20; PSE's Response to BR 3.

[78] See Dreyer, Exh. JMD-1CTr at 7:8-22; Cebulko, Exh. BTC-1CT at 5:17-20; Mullins, Exh. BGM-1T at 2:10-20, 3:1-6.

Public Counsel asserts that the investments PSE seeks to recover in this docket may have been covered with a purchase price.[79] NWEC maintains that the Commission should rule on the prudence of the transfer.[80] AWEC argues that NorthWestern should be obligated to pay a fair value because the capital additions will benefit its customers and not PSE customers.[81] AWEC further contends that PSE could have elected to operate its share of Colstrip as a merchant plant.[82]

43 PSE maintains that its decision to enter into the A&A Agreement transferring its ownership share of Colstrip to NorthWestern was reasonable considering the circumstances confronting the Company at the time that it entered into the agreement. PSE states that at the time it signed the A&A Agreement in July 2024, PSE anticipated substantial costs related to bringing Colstrip into compliance with Mercury and Air Toxics Standards (MATS).[83] PSE asserts that the potential MATS compliance costs ultimately caused its planned transfer of Colstrip to the plant operator, Talen to fail.[84] PSE further argues that the Commission should afford little weight to Public Counsel's questioning of PSE witness Roberts regarding an exemption to MATS compliance, based on the lack of documentary evidence in the record regarding the exemption, contending that prudence is concerned with what the utility knew at the time it made a decision.[85]

44 The Company contends that its decision to transfer its Colstrip ownership interest to NorthWestern for no purchase price was reasonable because the potential MATS compliance obligations rendered Colstrip a value-negative asset.[86] PSE also argues that the CETA deadline to remove coal power from the Company's allocation of electricity undermined PSE's bargaining leverage because potential buyers knew that PSE was unable

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[79] Dreyer, Exh. JMD-1CTr at 8:1-4.

[80] Cebulko, Exh. BTC-1CT at 5:17-20.

[81] Mullins, Exh. BGM-1T at 2:10-20, 3:1-6.

[82] Mullins, Exh. BGM-1T at 9:3-21.

[83] Brief of PSE at 24 ¶ 43; Roberts, Exh. RJR-1T at 3:18 – 4:8 (noting July 2024 MATS compliance estimates of $459,000,000 to $594,000,000).

[84] Brief of PSE at 24 ¶ 43; Roberts, TR. at 95:9-20.

[85] Brief of PSE at 24 ¶ 43.

[86] Brief of PSE at 25-26 ¶¶ 44-45; Roberts, Exh. RJR-1T at 4:9-18 (stating "no rational purchaser would ascribe positive value to [Colstrip]" and "[Colstrip]'s fair market value was already demonstrably negative, and any attempt to monetize it would have imposed a greater burden on PSE's Washington ratepayers than an outright abandonment.").

to retain long-term ownership in Colstrip.[87] PSE states that its bargaining power regarding Colstrip was further limited by the Company's need to maintain its Colstrip transmission rights, reducing the number of potential acquirers.[88] Based on these factors, PSE maintains that NorthWestern was the only purchaser who was willing and operationally capable of acquiring PSE's Colstrip ownership interest and that PSE's lack of bargaining power, combined with the need to quickly transfer Colstrip ownership, made a no-value transfer prudent under the circumstances.[89] The Company asserts that no other party has demonstrated that another entity was willing to purchase PSE's Colstrip ownership or identified an appropriate selling price that PSE should have acquired.[90] Furthermore, the Company states that the A&A Agreement is not subject to Commission approval pursuant to RCW 80.12.020 because as of December 31, 2025, Colstrip is not necessary or useful in the performance of any PSE duties to the public.[91]

45 PSE argues that AWEC's proposal that PSE could have retained its ownership interest in Colstrip and operated as a merchant plant would be unreasonably risky for the Company and contrary to Washington clean energy policy. PSE states that while it could have conceivably operated its share of Colstrip as a merchant plant, it would not be able to control dispatch or capital project decisions, which creates a risk that PSE would be forced into uneconomical decisions due to its minority ownership share.[92] PSE contends retaining ownership in Colstrip would have required PSE to participate in a new long term coal fuel contract for the plant, which creates risk that the Company would not be able to recover associated fuel costs.[93] The Company further suggests that its net present value (NPV) analysis demonstrates that the primary risk to Colstrip is an outage event that necessitates the acquisition of power at higher costs, and that merchant plant operation increases this risk.[94] PSE also maintains that it could face potential litigation over an attempt to operate

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[87] Brief of PSE at 25-26 ¶ 45; Roberts, Exh. RJR-1T at 4:20 – 5:15.

[88] Brief of PSE at 25-26 ¶ 45; Roberts, Exh. RJR-1T at 6:14 – 7:8. *See also* Roberts, TR. at 94:20 – 95:8 (explaining that the first attempted sale of PSE's Colstrip ownership was withdrawn in part because other parties to the proceeding objected to PSE's proposal to sell part of its Colstrip transmission system rights).

[89] Brief of PSE at 25-26 ¶ 45; Roberts, Exh. RJR-1T at 6:3 – 8:6.

[90] Brief of PSE at 25-26 ¶ 45; Roberts, Exh. RJR-1T at 8:9-18. *See also* Roberts, TR. at 94:20 – 96:22 (explaining that PSE had previously failed to sell or transfer its ownership interest in Colstrip two times prior to entering into the A&A Agreement with NorthWestern).

[91] Roberts, Exh. RJR-1T at 11:3-14.

[92] Brief of PSE at 27 ¶ 48; Roberts, Exh. RJR-1T at 9:3-14.

[93] Brief of PSE at 27 ¶ 48; Roberts, Exh. RJR-1T at 10:4-8.

[94] Brief of PSE at 27 ¶ 48; Atwood, NLA-11T at 14:7-12.

Colstrip as a merchant plant because its incorporation agreements prohibit the Company from creating subsidiaries.[95] PSE states that, even if it were able to operate Colstrip as a non-regulated subsidiary, such operation would either only benefit shareholders or lead to potential cost allocation disputes.[96] Finally, PSE asserts that operating Colstrip as a merchant plant would conflict with the intent of CETA and Washington's clean energy policy.[97]

46 NWEC argues that the A&A Agreement between PSE and NorthWestern requires Commission approval pursuant to RCW 80.12.020. NWEC asserts that PSE's argument that Colstrip will no longer be necessary or useful in its duties to the public as of December 31, 2025, is circular, because PSE is abandoning Colstrip to NorthWestern as of the date of that agreement and suggests that if PSE's interpretation is correct, then every abandonment agreement would evade Commission review.[98] NWEC contends that, even if PSE's interpretation is correct, the Commission is still required to approve the agreement because PSE agreed to align its voting with NorthWestern as part of the A&A Agreement.[99] While NWEC states that it is not asking the Commission to void the A&A Agreement, it maintains that the Commission should not allow PSE to both avoid review of the A&A Agreement and fully recover costs that allow Colstrip to continue operating beyond December 31, 2025.[100]

47 AWEC argues that the Commission has authority to review the A&A Agreement pursuant to RCW 80.12.020. AWEC asserts that Colstrip cannot both be a regulatory asset subject to ratemaking treatment and not subject to the Commission's approval under RCW 80.12.020 with respect to its transfer to NorthWestern.[101] AWEC maintains that, if PSE's transfer of Colstrip is not subject to Commission approval, then Colstrip is a merchant power plant that is not eligible for recovery of undepreciated investment under RCW 19.405.030.[102] AWEC contends that it is unreasonable for PSE to request full recovery of its investments in Colstrip while also transferring its ownership of Colstrip to NorthWestern without

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[95] Brief of PSE at 27-28 ¶ 49; Roberts, TR. at 106:15-18.

[96] Brief of PSE at 27-28 ¶ 49; Roberts, Exh. RJR-1T at 9:15 – 10:3.

[97] Brief of PSE at 27 ¶ 47; Roberts, Exh. RJR-1T at 10:9-12.

[98] Brief of NWEC at 11-12 ¶ 27.

[99] Brief of NWEC at 12 ¶ 28.

[100] Brief of NWEC at 12 ¶¶ 29-30.

[101] Brief of AWEC at 3 ¶ 7.

[102] Brief of AWEC at 3 ¶ 7.

Commission oversight.[103] AWEC further cautions against relying on the timing of the Colstrip ownership transfer as a basis to not approve the transaction, as the timing may imply that Colstrip is operating as a merchant plant.[104]

48 AWEC maintains that the Commission should find PSE's reasons for entering into the A&A Agreement unpersuasive and states that if PSE is correct that Colstrip is of no value, then the plant should be immediately retired.[105] AWEC states that PSE's transfer of its Colstrip ownership to NorthWestern at no cost is not supported by economic analysis and is undermined by the decommissioning and remediation obligations that PSE retains under the A&A Agreement.[106] AWEC argues that the A&A Agreement is not in the public interest because it provides no value to Washington customers and requires PSE to surrender its discretion to NorthWestern for the benefit of NorthWestern's ratepayers.[107] AWEC further asserts that PSE could have elected to operate Colstrip as a merchant plant, that the Commission should not find the Company's arguments about the risks of operating Colstrip as a merchant plant persuasive, and that PSE chose to not operate Colstrip as a merchant plant to protect its shareholders.[108]

49 Both AWEC and Public Counsel recommend that the Commission require PSE to submit a separate filing to approve the A&A Agreement.[109]

Commission Determination

50 RCW 80.12.020(1) provides:

> No public service company shall sell, lease, assign or otherwise dispose of the whole or any part of its franchises, properties or facilities whatsoever,

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[103] Brief of AWEC at 3 ¶ 7.

[104] Brief of AWEC at 4 ¶ 8. The Commission declines to consider the testimony filed in another docket cited by AWEC. This evidence is not part of this record in this proceeding and the Commission has already rejected a prior attempt to refer to related testimony that has not been made part of the record. *See WUTC v. Avista Corp*., Docket UE-240891, Order 06 (Sept. 30, 2025) (striking reference to testimony in Docket UE-240729 because the testimony had not been made part of the record).

[105] Brief of AWEC at 5-6 ¶¶ 10-11; Mullins, Exh. BGM-1T at 3:2-4.

[106] Brief of AWEC at 5-6 ¶ 11.

[107] Brief of AWEC at 5-6 ¶ 11; Mullins, Exh. BGM-1T at 7:10-17.

[108] Brief of AWEC at 6 ¶ 12.

[109] Dreyer, Exh. JMD-2CT at 3:11 – 4:12; Mullins, Exh. BGM-1T at 12:21 – 13:3.

> which are necessary or useful in the performance of its duties to the public, and no public service company shall, by any means whatsoever, directly or indirectly, merge or consolidate any of its franchises, properties or facilities with any other public service company, without having secured from the commission an order authorizing it to do so. The commission shall not approve any transaction under this section that would result in a person, directly or indirectly, acquiring a controlling interest in a gas or electrical company without a finding that the transaction would provide a net benefit to the customers of the company.

51 For RCW 80.12.020(1) to apply, the property that a public service company seeks to "sell, lease, assign or otherwise dispose of," must be "necessary or useful in the performance of [the public service company's] duties to the public." Pursuant to RCW 19.405.030(1)(a), each electric utility must eliminate coal-fired resources from its allocation of electricity on or before December 31, 2025, such that the costs and benefits associated with coal resources are removed from the electric utility's retail customer rates.[110]

52 During this proceeding, PSE updated its A&A Agreement to make the transfer of its Colstrip ownership to NorthWestern effective as of 12:00 a.m. Pacific Time, January 1, 2026.[111] As such, PSE's transfer of its Colstrip ownership to NorthWestern will occur after CETA's requirement to remove coal from the Company's allocation of electricity takes effect. Importantly, PSE has preserved its Colstrip transmission rights through the A&A Agreement.[112]

53 In general, every transfer of property that is useful and necessary from a public service company to another entity is subject to Commission approval pursuant to RCW 80.12.020. However, by prohibiting the use of certain resources for service in Washington, CETA has a unique interaction with the transfer of property statute, insofar as CETA effectively makes certain generating resources neither necessary or useful for service after a specific point in time. For coal-fired resources, that point in time is December 31, 2025.[113] Consequently, the Commission determines that the A&A Agreement is not subject to Commission approval pursuant to RCW 80.12.020 because, at the time PSE's Colstrip ownership is transferred to NorthWestern, Colstrip will not be "necessary or useful in the

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[110] *See* RCW 19.405.020(1).

[111] PSE's Supplemental Response to BR 3 (October 2, 2025).

[112] Roberts, Exh. RJR-1T at 6:14-15; Roberts, TR. at 98:15 – 99:1.

[113] RCW 19.405.030(1)(a).

performance of [PSE's] duties to the public," other than the Colstrip transmission rights, which the Company has retained.[114]

54 The Commission is cognizant of the fact that this conclusion is unique and unusual. However, as will be addressed elsewhere in this Order, the fact that the Commission is not reviewing the A&A Agreement for approval does not mean that the Commission will refrain from examining actions taken pursuant to the A&A Agreement under other Commission standards. The Commission's determination that the A&A Agreement is not subject to review because Colstrip's generation will not be necessary or useful in the performance of PSE's duties to the Washington public is consistent with RCW 19.405.030(3)'s requirement that coal-fired resources be removed from PSE's allocation of electricity. Moreover, the Commission is not without recourse to fashion alternative review mechanisms pursuant to its statutory duty to regulate in the public interest.[115]

55 In order to facilitate future review of the transfer of property that will become unable to serve Washington customers in the future due to the requirements of CETA, including but not limited to RCW 19.405.030-.050, the Commission shall require PSE to comply with the following condition:

> Going forward from the date of this Order, where PSE executes an agreement transferring assets for the purpose of complying with a requirement in CETA, PSE must file that agreement with the Commission for review and, if deemed necessary by the Commission, approval within five days of entering into the agreement, even where the resource may no longer be necessary or useful in the performance of its duties to the public by operation of CETA. In its review of the agreement, the Commission will consider whether the agreement is consistent with the public interest and equity concerns of CETA.

56 As the Commission has determined that the A&A Agreement is not subject to approval under RCW 80.12.020, it is unnecessary to resolve the arguments regarding whether PSE could have operated its portion of Colstrip as a merchant plant. However, the Commission observes that PSE presented credible evidence that the Company faced financial and legal risks if it elected to operate Colstrip as a merchant plant, PSE had a difficult bargaining position with respect to Colstrip, and PSE had made previous efforts to transfer its Colstrip

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[114] *See also* Mullins, Exh. BGM-1T at 10:7-12 ("If the transaction occurs prior to 12:00 Midnight on January 1, 2026, the deadline to remove coal from rates, then the transaction must, without question, be considered to involve utility plant subject to the property disposition requirements. If it occurs after 12:00 Midnight on January 1, 2026, then the transaction could potentially, but not necessarily, be viewed as a transaction of a merchant plant not subject to the approval process.").

[115] RCW 80.01.040.

ownership prior to the A&A Agreement.[116] Furthermore, insofar as CETA prohibits the cost and benefits from coal-fired resources to be included in retail electric customer rates, it is unclear how the operation of Colstrip as a merchant plant would have any direct or indirect value to PSE's Washington customers. There is no analysis in the record before the Commission regarding what those benefits could be, and the Commission will not presume that such benefits exist in the absence of supporting evidence. Finally, issues regarding decommissioning and remediation costs are not properly before the Commission in this case and will be reviewed in a later proceeding when such costs are proposed for inclusion in rates.

IV. Investments in Colstrip

57 As an initial matter, the discussion of PSE's Colstrip investments is somewhat complicated by the fact that different parties propose different categorizations of investments based on their respective positions. While there is some overlap between the parties' organization of investments and issues, the parties' organizations do not necessarily follow a uniform pattern. Therefore, the Commission will proceed by giving a brief overview of the parties' various positions and identify what assets each party has grouped under their respective categories in the interest of clarity.

PSE – Initial Position

58 PSE states that the purpose of this filing is to seek a determination of prudence and cost recovery for capital investments placed into service in 2024 through Schedule 141COL that are currently subject to refund.[117] PSE explains that it attempted to avoid including any capital investments that were expected to close in 2025 to minimize forecasting, although its filing does contain four projects that had closings in 2024 that are anticipated to be in service in 2025.[118] The Company further indicates that a final reporting of capital

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[116] Roberts, Exh. RJR-1T at 3:19 – 8:6, 9:3 – 10:8; Roberts, TR. at 94:20 – 96:22. However, the Commission expresses concern that PSE omitted the fact that Colstrip had received an exemption to the MATS compliance obligations from its testimony. Roberts. TR. at 90:1-3. ("Q: Okay. And Colstrip received an exemption from the EPA's MATS, correct? A: After the abandonment agreement was reached, yes."). The Commission expects a greater degree of candor from the utilities that it regulates, and the lack of documentation regarding the MATS exemption for Colstrip is unavailing when PSE's own witness verified that an exemption had been granted. A lack of forthrightness may subsequently impact a party's credibility before the Commission.

[117] Atwood, Exh. NLA-1T at 2:7-11, 5:22-23.

[118] Atwood, Exh. NLA-1T at 5:23-25 fn. 11. *See also* Atwood, Exh. NLA-5C; Cebulko, Exh. BTC-1CT at 19:6-11 (identifying the four projects with 2025 in service dates as (1) U4 Generator Exciter; (2) Replacement 3X3 Startup Transformer; (3) 3-5 Feedwater Heater; and (4) Northern Cheyenne AAQ System).

investments that are placed into service beyond the investments included in this filing will be made in its annual reports filed on or before September 30, 2025, and in 2026 after PSE has applied unrecovered plant against Production Tax Credits (PTC).[119]

59 PSE further argues that it has demonstrated that the costs the Company seeks to include in rates are prudent. The Company argues that it has demonstrated the need for its Colstrip investments based on its contractual obligations, the Colstrip operator's evaluation of the plan and cost benefit analysis, and the relatively high cost of replacement power.[120] The Company asserts that its decision to vote "no" on certain 2024 Colstrip budget items reflects PSE's attempt to consider alternatives to further capital additions, but that it cannot control the budgeting process based on its minority ownership share in Colstrip.[121] PSE further testifies that it coordinated with and kept its management reasonably informed about the investments at Colstrip.[122] Finally, PSE states that it has provided relevant contemporaneous documentation regarding the Colstrip costs in this proceeding.[123]

Staff

60 Staff does not challenge PSE's recovery of three categories of costs associated with Colstrip, totaling 25 projects. First, Staff does not contest ten projects with de minimis costs, defined by Staff as projects included in the Colstrip tracker that were less than $50,000, because these projects are not likely to have a material impact on rates.[124] Second, Staff does not challenge six projects associated with human health and safety concerns because "Staff accepts that the near-term benefits of those projects exceed the costs of the investments."[125] Third, Staff declines to challenge seven routine maintenance projects with

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[119] Atwood, Exh. NLA-1T at 6:1-5.

[120] Atwood, Exh. NLA-1T at 7:10 – 8:11, 10:17 – 11:9, 14:15 – 15:6; Exh. NLA-7C.

[121] Atwood, Exh. NLA-1T at 16:10 – 18:19.

[122] Atwood, Exh. NLA-1T at 20:8-17.

[123] Atwood, Exh. NLA-1T at 21:1-8; Exh. NLA-7C; Exh. NLA-10C.

[124] McGuire, Exh. CRM-1T at 8:1 – 9:5. Staff further explains that while at least one other project, the Northern Cheyenne AAQ system, met Staff's criteria for de minimis projects, Staff is contesting that project because the Company has not demonstrated that it is used and useful for service. McGuire, Exh. CRM-1T at 8:7-12. Staff states that the 10 de minimis projects consist of: (1) Opacity Monitor Replacement; (2) PLC to DCS Obsolescence; (3) Paste Plant Overflow Structure Mod; (4) Mercury Monitor Replacement U3; (5) Mercury Monitor Replacement U4; (6) River Pump Motor; (7) Boiler Feed Pump Rebuild; (8) PA Fan Motor Rewind; (9) Boiler Feed Booster Pump; and (10) Motor Circ Water Pump Cap. McGuire, Exh. CRM-1T at 8:14-20.

[125] McGuire, Exh. CRM-1T at 9:9 – 11:5. Staff identifies the six human health and safety projects as: (1) Switchgear modification; (2) U4 Boiler Snubber Rebuild; (3) Coal Pipe Replacement; (4) U4

an expected service life of four years or less,[126] reasoning that the Commission has previously distinguished between life-extending investments and routine capital maintenance and arguing that routine capital maintenance may be more appropriate for inclusion in rates.[127] Staff confirms that all of the projects that it is not contesting were placed into service during 2024.[128]

61 Staff challenges 13 of the 38 projects that PSE seeks to recover in this proceeding across three categories of assets.[129] First, Staff argues that the Commission should disallow one project related to the SmartBurn NOx Control System.[130] Second, Staff contends the Commission should disallow two projects that will not be used and useful in Washington in 2025.[131] Third, Staff asserts that the Commission should prorate ten projects that represent investments in long-lived plant.[132]

Projects Not Used and Useful

62 Staff maintains that the Commission should disallow recovery of the Unit 4 Generator Exciter and Northern Cheyenne AAQ System because the Company has not demonstrated that those investments are used and useful for service in Washington. Staff asserts that PSE has only identified estimated in-service dates for these two capital projects, which is insufficient to establish that the capital assets will be used and useful in Washington.[133]

Hot Reheat Elbow Replacement; (5) U4 Boiler Scaffolding; and (6) U4 Boiler Elevator. McGuire, Exh. CRM-1T at 9:15-20.

[126] McGuire, Exh. CRM-1T at 12:3-7 (identifying the routine maintenance projects as: (1) U4 Auxiliary Turbine Overhaul; (2) U4 Turbine/Generator Base Overhaul; (3) U4 Boiler Coutant Bottom; (4) U4 Air Preheater Basket Replacement; (5) U4 Boiler Waterwall Replacement; (6) U4 Boiler Economizer Tube Replacement; and (7) U4 Air Preheater Seal Replacement).

[127] McGuire, Exh. CRM-1T at 11:9 – 13:3. Staff further clarifies that while 18 of PSE's projects met its criteria for routine maintenance, 11 of the projects either have de minimis costs (four projects), were human health and safety projects (four), or were related to SmartBurn (three). McGuire, Exh. CRM-1T at 11:16 – 12:2. Staff subsequently revised its position and determined that two of the three investments that were originally categorized as SmartBurn should be recovered in full through rates as expenses related to routine maintenance. Brief of Staff at 5 ¶ 13.

[128] McGuire, Exh. CRM-1T at 7:17-20.

[129] McGuire, Exh. CRM-1T at 6:19 – 7:3.

[130] Brief of Staff at 3 ¶ 9.

[131] McGuire, Exh. CRM-1T at 13:11-12.

[132] McGuire, Exh. CRM-1T at 13:13-15.

[133] Brief of Staff at 6-7 ¶ 15; Atwood, Exh. NLA-11T at 19:15-20 (*citing* Atwood, Exh. NLA-14); Atwood, TR. at 77:10 – 79:12.

Alternatively, Staff argues that, if the Company demonstrates that these projects are in service after the close of evidence in this proceeding, the Commission should only allow a prorated portion of those investments into rates based on the length the projects are in service prior to the CETA cut-off relative to the total service life of the assets.[134]

63 Staff further disagrees that the Commission's Used and Useful Policy Statement supports PSE's argument for full recovery of the capital investments in this proceeding. Staff contends that simply because the capital investments may be used and useful for some time prior to CETA's requirement to remove coal power from PSE's allocation of electricity does not mean that PSE is entitled to recover the full cost of the investment.[135] Moreover, Staff states that allowing PSE to recover costs in rates associated with projects in service after 2025 would be unreasonable and contrary to Washington law.[136] Staff further argues that it is not unfair for the Commission to require PSE to pay for costs that it is obligated to pay under its O&O Agreement, because PSE, rather than the ratepayers, had full control over whether to enter such an agreement and there is nothing unfair about requiring PSE to honor its contractual commitments.[137]

Long-Lived Plant Assets

64 Staff contends that the Commission should prorate the costs associated with ten long-lived assets because PSE has not demonstrated that the ten long-lived assets were prudent and not life extending.[138] First, Staff asserts that while the investments provide some benefit to Washington customers, the investments will not be able to provide the full benefit associated with their respective useful lives due to CETA's prohibition on coal power in PSE's allocation of electricity.[139] For support, Staff refers to the Commission's final order in Avista's 2020 GRC, where the Commission rejected Avista's request to recover costs of its Dry Ash Disposal Project because Avista had not shown that the project was not life-

[134] Brief of Staff at 6-7 ¶ 15.

[135] Brief of Staff at 7-8 ¶ 16.

[136] Brief of Staff at 7-8 ¶ 16.

[137] Brief of Staff at 8 ¶ 17.

[138] Brief of Staff at 8-9 ¶ 19 fn. 37 (identifying the ten long-lived assets as: (1) CEM Monitor replacement for U4; (2) Scrubber Chiller replacement; (3) Windows 11 Workstation Upgrades; (4) CRO Simulator replacement, (5) Mobile Equipment replacements for 2024; (6) Replacement 3x3 Startup Transformer; (7) 3-5 Feedwater Heater; (8) Vehicle replacements for 2024; (9) EHP G Cell Liner Purchase; and (10) Cooling Tower Fill replacement for U4).

[139] Brief of Staff at 10 ¶ 22.

extending.[140] Staff maintains that because CETA prohibits coal in the Company's allocation of electricity beginning in 2026, the Company should only be authorized to recover a proportional share of costs associated with long-lived assets because they will only benefit Washington customers for a portion of their overall useful life.[141]

65 Second, Staff argues that PSE has not demonstrated a need for the ten long-lived investments. Staff notes that even though PSE voted against several capital additions during the Colstrip budgeting process, which indicates a lack of need, the Company is nonetheless seeking full recovery of those investments in this proceeding.[142] According to Staff, although PSE was obligated to pay for its proportional share of approved investments pursuant to the O&O Agreement, the existence of the agreement is not determinative as to the need for a particular investment.[143] Staff further contends that the lack of discretion to fund approved budget items under the O&O Agreement is insufficient to demonstrate need and that PSE's decision to vote against including certain long-lived assets in the Colstrip budget shows that such investments were unnecessary.[144]

66 Third, Staff maintains that PSE has not identified a valid cost-benefit analysis demonstrating that the projects are likely to produce sufficient benefits relative to the costs of the projects. Staff argues that the Commission's prior decisions in PacifiCorp's 2005 GRC and Avista's 2015 GRC establish that a utility must provide a cost-benefit analysis that quantifies tangible and intangible benefits to demonstrate that an investment is prudent.[145] Staff notes that PSE testified that whether benefits exceed costs is a relevant consideration for utility management when choosing to pursue investments and that such analysis should be from the perspective of Washington ratepayers.[146]

67 Staff also contends that, while PSE did provide a NPV calculation to demonstrate that the Company considered the costs and benefits of investments, the NPV analysis is flawed because it assumes a 100 percent probability of asset failure that will result in an outage if

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[140] Brief of Staff at 10 ¶ 23 fn. 46 (*citing WUTC v. Avista Corp*., Dockets UE-200900, UG-200901, & UE-200894 (*consolidated*), Order 08/05 at 100 ¶ 279 (Sept. 27, 2021)).

[141] Brief of Staff at 11 ¶ 24.

[142] Brief of Staff at 12-13 ¶¶ 27-28.

[143] Brief of Staff at 12-13 ¶ 27.

[144] Brief of Staff at 13 ¶ 28.

[145] Brief of Staff at 13-14 ¶ 30 (*citing WUTC v. Avista Corp*, Dockets UE-150204 & UG-150205 (*consolidated*), Order 05 at 69 ¶ 193 (Jan. 6, 2016); *WUTC v. PacifiCorp*, Dockets UE-050684 & UE-050412 (*consolidated*), Order 04/03 at 27-28 ¶ 68 (Apr. 27, 2006)).

[146] Brief of Staff at 15 ¶ 32 (*citing* Atwood, TR. at 37:17-21, 38:4-7).

the investment is not pursued.[147] Staff asserts that assuming a 100 percent probability of failure if a replacement is not acquired overstates the actual probability of failure, thereby artificially increasing the benefits associated with a particular investment.[148] Staff states that PSE is unable to identify the actual probability of failure because Talen does not model the probability of failure.[149] Staff also states that PSE's NPV analysis is unreasonable because it is not from the perspective of Washington ratepayers.[150] Staff further maintains that PSE has not adequately supported its assertion that the cost of short term power would exceed the cost of further capital investment in Colstrip.[151] Finally, Staff argues that PSE has not demonstrated that it adequately presented data to management regarding decisions to pursue investments at Colstrip.[152]

SmartBurn

68 Staff initially recommended that the Commission disallow recovery of the Unit 4 Boiler Burner AuxAir Replacement (Boiler Burner), the Unit 4 separated air over fire (SOFA) Bucket Replacement, and the Unit 4 Top Over Fire Air Bucket Replacement (TOFA), which Staff initially identified as SmartBurn components that were disallowed in PSE's 2019 GRC.[153] However, after receiving PSE's answer to BR 2, Staff revised its recommendation to support recovery for the SOFA and Boiler Burner but to disallow recovery for the TOFA component because it had been previously disallowed in PSE's 2019 GRC as a SmartBurn component.[154]

Public Counsel

69 Public Counsel asserts that PSE's attempt to seek full cost recovery of "life-extending" investments at Colstrip is improper because these investments will support Colstrip operations beyond 2025, after which CETA prohibits inclusion of coal-fired resources in PSE's allocation of electricity. Public Counsel recommends that the Commission broadly prorate all of PSE's 2024 Colstrip investments so that customers only pay for a share of

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[147] Brief of Staff at 15 ¶ 33; McGuire, Exh. CRM-1T at 20:4 - 24:4.

[148] Brief of Staff at 15-16 ¶ 34.

[149] Brief of Staff at 15-16 ¶ 34; McGuire, Exh. CRM-4 at 2.

[150] McGuire, CRM-1T at 19:6-10, 20:16 – 21:19.

[151] Brief of Staff at 17-18 ¶ 36.

[152] Brief of Staff at 16-17 ¶ 35.

[153] McGuire Exh. CRM-1T at 3:8-10, 13:22-23, 14:1-2, 14:13-18.

[154] Brief of Staff at 3 ¶ 9.

each plant addition proportional to their share of that plant's additional expected service life prior to the deadline to remove coal-fired resources from rates.[155] Public Counsel further argues that the Commission should entirely disallow the TOFA project related to SmartBurn.[156]

Used and Useful

70 Public Counsel argues that Colstrip will not be used and useful to Washington ratepayers after December 31, 2025, and that costs associated with capital additions related to Colstrip operations after that date must be excluded from rates. Stated another way, Public Counsel contends that Colstrip "capital additions can only be placed into rates to the extent they were in service to Washington customers through the end of 2025."[157] Public Counsel maintains that while the Legislature modified the Commission's ratemaking authority when it enacted CETA to allow the Commission to consider rate base that will be used and useful up to 48-months after the rate effective date, the assets must still be capable of being used for service in Washington to be included in rate base.[158]

Life-Extending Investments

71 Public Counsel states that PSE has failed to demonstrate that its investment in life-extending capital additions to Colstrip were prudent. Public Counsel argues that several capital additions that extend the useful life of Colstrip beyond December 31, 2025, when Colstrip can no longer provide coal power to PSE's Washington customers, are unreasonable and therefore imprudent.[159] Public Counsel further asserts that including costs associated with Colstrip capital assets in service beyond 2025, when Washington customers cannot benefit from those assets, results in rates that are not fair, just, reasonable, and sufficient. Public Counsel contends that including the full costs of PSE's Colstrip investments is unfair because they cannot benefit Washington customers after 2025, unjust because inclusion is contrary to CETA and the used and useful principle, and unreasonable because Colstrip provides no value to Washington customers and is harmful to the

[155] Dreyer, Exh. JMD-1CTr at 5:19 – 6:6. *See also* Dreyer, Exh. JMD-2CT at 5:1-7 (supporting AWEC's general proposal to prorate PSE's 2024 capital additions).

[156] Brief of Public Counsel at 23 ¶¶ 69-70.

[157] Brief of Public Counsel at 14-15 ¶ 45.

[158] Brief of Public Counsel at 14-15 ¶¶ 44-45.

[159] Brief of Public Counsel at 18 ¶ 55; Dreyer, Exh. JMD-1CTr at 4:23 – 5:18.

environment.[160] Public Counsel also maintains that the Company has not presented any evidence that allowing only a prorated portion of its Colstrip capital additions into rates will result in insufficient revenue for the Company to continue operating.[161] Based on its above arguments, Public Counsel recommends that the Commission allow recovery of PSE's Colstrip assets on a prorated basis.[162]

SmartBurn

72 Public Counsel recommends that the Commission disallow recovery for all four of the NOx components, including the Boiler Burner, SOFA, TOFA, and Control Room Operator (CRO) because the Commission had previously found SmartBurn to be imprudent.[163] After review of PSE's response to BR 2, Public Counsel maintains its position that SmartBurn investments that were disallowed in PSE's 2019 GRC cannot be recovered in this matter.[164] However, because only the TOFA component was disallowed in the 2019 GRC, Public Counsel now recommends the Commission disallow recovery only of the TOFA investment.

NWEC

73 NWEC makes six general recommendations regarding PSE's Colstrip investments at issue in this proceeding. First, NWEC argues that the Commission should disallow costs associated with projects that extend the life of Colstrip such that it will continue to operate past December 31, 2025.[165] Second, NWEC states that the Commission should disallow

[160] Brief of Public Counsel at 18-19 ¶¶ 57-59.

[161] Brief of Public Counsel at 19-20 ¶ 60.

[162] Brief of Public Counsel at 24-26 ¶¶ 74-80; Dreyer, Exh. JMD-1CTr at 5:19 – 6:6.

[163] Dreyer, Exh. JMD-2CT at 3:4-8.

[164] Brief of Public Counsel at 23 ¶¶ 69-70.

[165] Cebulko, Exh. BTC-1CT at 22:1-10, 25:8-9 (identifying nine life-extending investments as (1) Scrubber Chiller Replacement; (2) CEM Monitor Replacement – U4; (3) Opacity Monitor Replacement; (4) Cooling Tower Fill Replacement U4; (5) Mercury Monitor Replacement – Unit 3; 6) Mercury Monitor Replacement – Unit 4; 7) EHP G Cell Liner Purchase; (8) PLC to DCE Obs. (Water Treatment Conversion); and (9) River Pump Motor). *See also* Brief of NWEC at 4 ¶ 10 (clarifying that NWEC also considers the four projects not used and useful prior to 2025 to also be life extending investments, bringing the total number of life-extending investments that NWEC recommends the Commission disallow to thirteen).

projects that lack a capital justification.[166] Third, NWEC asserts that the Commission should allow PSE to recover only a prorated portion of costs associated with eleven major maintenance projects.[167] Fourth, NWEC contends that the Commission should disallow costs associated with the TOFA and SOFA investments related to SmartBurn.[168] Fifth, NWEC maintains that the Commission should disallow recovery of four investments that were not placed into service in 2024.[169] Finally, similar to Staff, NWEC recommends that the Commission allow full recovery of six projects associated with human health and safety.[170]

Life-Extending Investments

74 NWEC argues that the Commission should not allow PSE to recover costs associated with life-extending investments at Colstrip. NWEC contends that PSE has not demonstrated that 13 life-extending projects are used and useful for service in Washington.[171] NWEC further asserts that the fact that PSE has entered into the A&A Agreement with NorthWestern should not influence the Commission's analysis regarding whether the assets are used and useful.[172] NWEC maintains that PSE's decision to vote against various Colstrip capital additions undermines the Company's assertion that those assets are prudent.[173] NWEC

[166] Cebulko, Exh. BTC-1CT at 26:1-2 (identifying projects lacking capital justification as (1) Boiler Feed Pump Rebuild-Element; (2) PA Fan Motor Rewind/Refurb; (3) Boiler Feed Booster Pump RB; and (4) Motor Circ Wtr Pump Cap Spare).

[167] Cebulko, BTC-1CT at 28:15 – 29:1 (identifying major maintenance projects as: (1) Auxiliary Turbine Overhaul U4; (2) Turbine/Generator Base OH U4; (3) Boiler Coutant Bottom U4; (4) Air Preheater Basket Repl U4; (5) Boiler Waterwall Repl/Maint U4; (6) Air Preheater Seal Repl; (7) Workstation Upgrades (Windows 11); (8) Mobile Equipment replacements (2024); (9) Paste Plant Overflow Structure Modifications; (10) Boiler Economizer Tube Repl U4; and (11) Vehicle Replacements (2024)). Seven of NWEC's major maintenance projects are the same as the "routine maintenance" projects identified by Staff. *Compare* McGuire, Exh. CRM-1T at 23:3-7 *with* Cebulko, Exh. BTC-9CT at 8:1.

[168] Brief of NWEC at 8 ¶ 19.

[169] Cebulko, Exh. BTC-1CT at 19:6-11 (identifying the four projects as (1) U4 Generator Exciter; (2) Replacement 3X3 Startup Transformer; (3) 3-5 Feedwater Heater; and (4) Northern Chyenne AAQ System).

[170] *Compare* McGuire, Exh. CRM-1T at 8:14-20 *with* Cebulko, Exh. BTC-1CT at 27:7-8.

[171] Brief of NWEC at 4-5 ¶¶ 11-12. Cebulko, Exh. BTC-1CT at 9:10 – 10:2, 12:10 – 13:6.

[172] Brief of NWEC at 5 ¶ 12.

[173] Brief of NWEC at 5 ¶ 12.

requests that the Commission should articulate a prudence standard that will apply to future investments that extend the life of fossil fuel resources.[174]

Investments Lacking Capital Justification

75 NWEC additionally recommends that the Commission disallow four projects that have no capital justification in the record. NWEC notes that PSE's request for recovery in this case contains four projects that were initially non-capital projects that were subsequently transferred to capital based on financial review that do not have specific capital justification summaries.[175] NWEC inquired further about the justification for these four projects in discovery, but received a similar response from PSE, who indicated that no capital justifications were available.[176] NWEC recommends that the Commission disallow costs associated with these four projects because PSE has neither demonstrated the need for nor provided contemporaneous documentation regarding these projects.[177]

Major Maintenance

76 NWEC also recommends that the Commission prorate major maintenance projects associated with Colstrip capital investments and disallow costs amortized after 2025, consistent with the term in the Settlement Agreement in PSE's 2022 GRC regarding major maintenance, for three reasons.[178] First, NWEC states that plant investments have generally been recovered based on the expected life of the investment, and that prorating recovery of maintenance costs appropriately matches the investments costs with its expected benefits.[179] Second, NWEC contends that allowing full recovery of maintenance costs would conflict with PSE's 2014 and 2022 settlement terms regarding the amortization of major maintenance costs, which provide that major maintenance will be amortized over three years and, in the case of the 2022 settlement, that costs amortized after 2025 will not

[174] Supp. Brief of NWEC at 4 ¶ 11.

[175] Cebulko, Exh. BTC-1CT at 25:13-18 (*citing* Atwood, Exh. NLA-1T at 11:1 fn. 17).

[176] Cebulko, Exh. BTC-7 at 1 (stating for each of the four projects "No Capital Justification available, inspection based work after removal.").

[177] Cebulko, Exh. BTC-1CT at 26:6-8.

[178] Cebulko, Exh. BTC-9CT at 6:1-19; Brief of NWEC at 7-8 ¶ 17 (*citing WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067, & UE-210918 (*consolidated*), Order 24/10, Appendix A at 7-8 ¶ 23 j (Dec. 22, 2022)).

[179] Cebulko, Exh. BTC-9CT at 6:2-11.

be recovered.[180] Finally, NWEC argues that the NPV analysis overstates the benefits from Colstrip because it overestimates the availability of Colstrip power, fails to consider the cost of capital investments in its comparison of benefits to costs, and improperly assumes that PSE's only reasonable alternative was to purchase replacement power from the market.[181] NWEC supports Staff's argument that the NPV analysis improperly assumes a 100 percent probability of failure in the event that a capital asset is not pursued.[182] NWEC further maintains that the Commission should not rely on the late disclosed analysis provided by PSE in response to BR 1 because that analysis is not risk adjusted and PSE has not shown that it was prepared contemporaneously with its decisions to invest in Colstrip.[183]

SmartBurn

77 NWEC argues that the Company has not provided any new evidence demonstrating that its SmartBurn investments have been prudently incurred.[184] NWEC also raises concerns about the Company requesting relief for an investment that has been previously disallowed by the Commission and alleged that the request places an "undue and significant burden on the Commission and intervenors" as it makes it difficult to obtain a reasonable settlement.[185]

78 NWEC contends that the Company has not provided support that distinguishes the SOFA component from the TOFA component. NWEC raises concern that "the arrows in PSE's schematic[186] identify the same part of the boiler system in attempting to delineate between TOFA and SOFA, making it impossible for the viewer to determine what, if any, difference exists between the TOFA and SOFA components."[187] NWEC recommends that the

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[180] Cebulko, Exh. BTC-1CT at 29:2 – 30:2 (*citing WUTC v. Puget Sound Energy*, Docket UE-141141, Order 04 at 3-5 ¶ 8 (Nov. 3, 2014)); Cebulko, Exh. BTC-9CT at 6:12-17 (*citing WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067, & UE-210918 (*consolidated*), Order 24/10, Appendix A at 7-8 ¶ 23 j (Dec. 22, 2022)).

[181] Brief of NWEC at 5-6 ¶ 13; Cebulko, Exh. BTC-1CT at 13:15 – 16:16.

[182] Brief of NWEC at 6 ¶ 14 (*citing* McGuire, Exh. CRM-1T at 22:1 – 24:4).

[183] Brief of NWEC at 6-7 ¶ 16.

[184] Cebulko, Exh BTC-1CT at 18:12-15.

[185] McCloy, Exh. LCM-1T at 12:16-20.

[186] The schematic identified by NWEC was filed September 10, 2025, by the Company in response to BR 2 Attachment A and is marked confidential.

[187] Brief of NWEC at 9-10 ¶ 22.

Commission should disallow the SOFA and TOFA components as SmartBurn that has been previously disallowed.[188]

Investments Not Used and Useful in 2024

79 NWEC maintains that the Commission should fully disallow four projects with in-service dates in 2025 because PSE cannot demonstrate that these investments provided benefits to Washington ratepayers in 2024.[189] NWEC asserts that projects that come online on December 31, 2025, will never provide benefits to Washington ratepayers due to CETA's requirement to remove coal-fired resources from the allocation of electricity.[190] NWEC also argues that, if the Commission determines that the four investments not used and useful in 2024 are in fact used and useful, that the Commission should classify the projects as life-extending and disallow recovery of those investments because their useful lives exceed the three to four year useful life for major maintenance projects.[191]

Human Health and Safety Investments

80 NWEC recommends that the Commission allow PSE to recover six projects associated with human health and safety concerns.[192] NWEC states that it has reviewed the project justifications for each of the projects and found that the projects included economic metrics, including such as the internal rate of return and estimated payback period, and verified that the project descriptions supported a safety designation.[193] As such, NWEC recommends full recovery of the six human health and safety projects.[194]

AWEC

81 AWEC recommends that the Commission should prorate PSE's recovery of assets based on the portion of their service life prior to December 31, 2025, because after that date the

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[188] Brief of NWEC at 9-10 ¶ 22.

[189] Cebulko, Exh. BTC-1CT at 19:1 – 20:6. *See also* Cebulko, Exh. BTC-1CT at 19:10-11 (identifying the projects with in service dates in 2025 as: (1) U4 Generator Exciter; (2) Replacement 3X3 Startup Transformer; (3) 3-5 feedwater heater; and (4) Northern Cheyenne AAQ System).

[190] Cebulko, Exh. BTC-1CT at 20:7-13.

[191] Brief of NWEC at 10 ¶ 24.

[192] Cebulko, Exh. BTC-1CT at 26:11 – 27:10.

[193] Cebulko, Exh. BTC-1CT at 27:1-6.

[194] Cebulko, Exh. BTC-1CT at 27:9-10.

assets are not used and useful in Washington and the Commission should disallow costs associated with the previously disallowed SmartBurn investment.

Used and Useful

82 AWEC asserts that the Commission should exclude capital projects that have an in-service date of December 31, 2025, or later under the used and useful standard, because those capital projects will not be used for service during the rate effective period.[195] Additionally, AWEC argues that the Commission should prorate PSE's recovery of life-extending investments, routine maintenance, and human safety projects, because those investments will not provide benefits to ratepayers after 2025.[196] AWEC further contends that a disallowance is appropriate given PSE's decision to enter into the A&A Agreement because the A&A Agreement obligated PSE to invest in life-extending assets that provide minimal benefit to Washington ratepayers.[197] AWEC states that any disallowance should be not be subject to cost recovery by using PTCs.[198]

SmartBurn

83 AWEC recommends that the Commission disallow all capital additions associated with SmartBurn that had been previously disallowed.[199] Specifically AWEC recommends disallowance for previously disallowed SmartBurn investments by a total of $1,039,987, which reflects only a disallowance for the TOFA component.[200]

PSE - Rebuttal

Used and Useful

84 The Company maintains that its capital investments in Colstrip satisfy the Commission's used and useful standard. Specifically, PSE argues that its investments comply with the Commission's Used and Useful Policy Statement and suggests that prorating its investments would be unjust given the Commission's prior approval of the settlement term

[195] Brief of AWEC at 7-8 ¶ 15.

[196] Brief of AWEC at 8-9 ¶ 17.

[197] Brief of AWEC at 4-5 ¶ 9.

[198] Brief of AWEC at 4-5 ¶ 9; Mullins, Exh. BGM-1T at 4:5-9.

[199] Mullins, Exh. BGM-1T at 3:16-18.

[200] Brief of AWEC at 8 ¶ 16; Mullins, Exh. BGM-4C.

related to terminal depreciation of Colstrip assets.[201] The Company further asserts that proration of the Colstrip capital investments would be unfair, because the investments were necessary and provided a benefit to customers.[202] PSE maintains that the proposals to prorate the capital additions in this case contradict the settlement agreement in Dockets UE-170033 and UG-170034, as well as the settlement agreement in Dockets UE-220066, UG-220067, and UG-210918, because those agreements provide for terminal depreciation of the Colstrip assets.[203]

Live-Extending Investments

85 PSE asserts that the NPV analysis included in the Company's filing satisfies the Commission's prudence standard. The Company maintains that the NPV analysis reasonably reflects the costs associated with each project, risks associated with not performing the work, and the reasoning for each project.[204] PSE argues that the risk assessment reflected in the NPV analysis is appropriate because of the comparatively high cost of purchasing replacement power in the event of a temporary shut-down of Colstrip.[205] The Company further contends that, under its O&O Agreement, PSE's failure to pay its portion of Colstrip capital addition costs would have resulted in the Company defaulting on its contract and losing access to its share of electricity from Colstrip.[206] As a result of the threat of default, the Company argues that it effectively faced a 100 percent probability of failure if it failed to pay for its share of Colstrip capital addition costs. PSE further states that the Commission's prudence standard does not require a risk adjusted cost-benefit analysis in the manner proposed by Staff.[207]

Projects Not In Service Before 2025

86 PSE additionally argues that the Commission should allow the Company to recover assets that may not be in service before 2025. PSE suggests that the Commission's Used and Useful Policy Statement supports the Company's argument that the Commission has

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[201] Brief of PSE at 14-15 ¶ 26; Free, Exh. SEF-1T at 6:1 – 8:11, Atwood, Exh. NLA-11T at 18:6 – 19:20.

[202] Brief of PSE at 14-15 ¶ 26; Atwood, Exh. NLA-11T at 2:7-10.

[203] Brief of PSE at 12-14 ¶¶ 23-25; Free, Exh. SEF-1T at 6:1-21.

[204] Brief of PSE at 15 ¶ 27; Atwood, Exh. NLA-1T at 10:17 – 11:9, Exh. NLA-11T at 14:1 – 15:16.

[205] Brief of PSE at 15-16 ¶ 28; Atwood, Exh. NLA-1T at 15:7 – 16:8; Exh. NLA-11T at 14:7-12.

[206] Brief of PSE at 16-17 ¶ 29; Atwood, Exh. NLA-9.

[207] Brief of PSE at 17 ¶ 30; Atwood; Exh. NLA-11T at 11:1 – 13:6.

sufficient flexible authority under RCW 80.04.250 to permit recovery of its investments in the U4 Generator Exciter and Northern Cheyenne AAQ System.[208] The Company states that the Commission's rejection of more restrictive approaches to the inclusion of provisional capital in rates as part of the Used and Useful Policy Statement indicates that the Commission may include capital additions that are not in service by 2025 in rate base.[209]

Major Maintenance

87 PSE argues that the Commission should reject NWEC's argument to prorate or disallow major maintenance capital costs based on PSE's 2014 and 2022 settlements because those settlements do not apply to major maintenance capital costs. PSE maintains that major maintenance events result in two types of costs, capital costs and operations and maintenance (O&M) costs.[210] PSE asserts that the 2014 settlement only pertains to the O&M costs associated with major maintenance events, and that NWEC is attempting to improperly apply that settlement term to major maintenance capital costs.[211] However, while PSE contends that the 2014 settlement term does not apply to the capital maintenance costs, it states that the major maintenance amortization treatment in the 2014 settlement has the same effect as prorating the major maintenance capital costs.[212] PSE further argues that the 2022 settlement term regarding major maintenance amortization only pertains to the amortization of major maintenance O&M costs, not major maintenance capital costs, similar to the 2014 settlement.[213]

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[208] Brief of PSE at 21-22 ¶¶ 38-39; Atwood, NLA-11T at 17:18 – 19:20.

[209] Brief of PSE at 22 ¶ 39.

[210] Free, Exh. SEF-1T at 12:10-11.

[211] Free, Exh. SEF-1T at 13:3-8.

[212] Free, Exh. SEF-1T at 13:14-17 ("In other words – the treatment Mr. Cebulko and parties recommend for pro-rating PSE's capital costs is the same as the major maintenance *amortization* treatment agreed to in PSE's 2014 PCORC. Therefore, no correction to the calculation of Mr. Cebulko's proposed adjustment is needed.") (emphasis in original).

[213] Brief of PSE at 14-15 ¶ 26 fn.61; Free, TR. at 115:25 – 118:8. *See also* Free, TR. at 119:5-14 ("A: I believe that the way my exhibits were laid out in [PSE's 2022 GRC], the contested adjustment was only related to the O&M portion of major maintenance. That's deferred. Not the capital. And we settled that adjustment. So in my mind that makes it clear. Q: All right. So what you're saying is you only settled the operation/maintenance portion, not the capitalized portion? A: Correct.").

SmartBurn

88 The Company is seeking recovery of investments to components of its NOx control system. Specifically, the Boiler Burner, SOFA, and TOFA components of the combustion control system, which are commonly referred to as SmartBurn by the Colstrip operator and within plant budgets.[214] PSE alleges that there has been a misunderstanding as to what is the SmartBurn equipment that was disallowed in PSE's 2019 GRC because SmartBurn is a company and not a singular piece of equipment. [215] For regulatory purposes, PSE clarifies that the only components of the NOx control system that was disallowed as SmartBurn in PSE's 2019 GRC was the TOFA. The SOFA and Boiler Burners existed prior to the SmartBurn technology installation.[216] The Boiler Burner was installed prior to 2007, the SOFA on Unit 3 was installed in 2007, and on Unit 4 in 2009.[217] PSE concedes that the Company incorrectly identified the SOFA, TOFA, and Boiler Burners as SmartBurn in a data request response to Staff.[218] On cross-examination, although the Boiler Management System (BMS) was updated by SmartBurn in 2017, the plant would still need a BMS, regardless of who installed it.[219] PSE is not seeking any recovery related to the BMS in this docket.[220] Atwood alleges that the "CRO Simulator is not specific to the operation of SOFA-installed SmartBurn equipment only" and that the CRO would have been installed without a SmartBurn investment so it should not be disallowed.[221]

89 PSE is seeking recovery for the TOFA SmartBurn component even though it had previously been disallowed because the TOFA is "an integrated part of the Combustion Control system, and the plant cannot run without it."[222] Specifically:

> [t]he pieces of the combustion system work together to operate the Units efficiently by avoiding slagging, maintaining steam temperature, avoiding metal heat fatigue, and other goals, while also maintaining environmental compliance standards. TOFA, SOFA, burners, and other equipment all have to be maintained on a regular basis when in constant contact with heat and

[214] Atwood, Exh. NLA-11T at 4:12-18.

[215] Atwood, Exh. NLA-11T at 5:4-8.

[216] Atwood, Exh. NLA-11T at 5:15-22; Atwood, TR. at 39:21-25; Atwood, Exh. NLA-12.

[217] PSE's Response to BR 2.

[218] Atwood, Exh. NLA-11T at 5:22, 6:1-3; Exh. NLA-7C.

[219] Atwood, TR. at 40:14-20.

[220] Atwood, Exh. NLA-19X at 1.

[221] Atwood, Exh. NLA-11T at 7:3-5, 13-15.

[222] Atwood, Exh. NLA-11T at 6:5-9.

> corrosive conditions. Consequently, PSE should be allowed to recover the investment made in these systems and equipment.[223]

90 PSE argues that its investments in SmartBurn are prudent and are used and useful, and requests that the Commission grant full recovery.[224] Although the Commission previously disallowed the TOFA component, the Company argues that a previous disallowance is not a "blanket, forward-looking" ban and that the Commission should base its decision on the record in this proceeding and asks the Commission to consider whether the SmartBurn investments in "2024 were prudently incurred and confer commensurate benefits to Washington customers in the rate period[.]"[225]

Commission Determination

91 Before investments may be recovered in rates, the Commission must determine that the costs associated with investments a utility seeks to recover are used and useful for service in this state.[226] Similarly, costs may only be included in rates if the Commission determines those investments are prudent.[227] As such, the Commission review of a utility's requested rate recovery encompasses both the question of whether investments are used and useful and the question of whether the associated costs are prudent.[228] The Commission now proceeds to consider whether the investments that PSE has included in rates for recovery are used and useful and then considers whether the costs that it seeks to recover are prudent.

A. Used and Useful

92 RCW 80.04.250 states in part:

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[223] Atwood, Exh. NLA-11T at 6:10-16.

[224] Brief of PSE at 17-18 ¶ 31.

[225] Brief of PSE at 17-18 ¶ 31.

[226] *WUTC v. PacifiCorp,* Docket UE-050684, Order 04 at 21-22 ¶ 50 (Apr. 17, 2006).

[227] *WUTC v. Puget Sound Energy*, Docket UE-031725, Order 14 at 20-21 ¶ 37 (May 13, 2004) ("Any costs determined to be unreasonable or imprudent in such proceedings are subject to disallowance.").

[228] *See also* Policy Statement on Property that Becomes Used and Useful After the Rate Effective Date, Docket U-190531 at 14-15 ¶ 43 (Jan. 31, 2020) ("In sum, this Policy Statement establishes a two-step approval process. The first step involves provisional approval for the inclusion in rates of identified rate-effective period investment. The second step involves final approval after the investments are reviewed and confirmed to be used and useful and prudent.").

> (1) The provisions of this section are necessary to ensure that the commission has sufficient flexible authority to determine the value of utility property for rate making purposes and to implement the requirements and full intent of chapter 288, Laws of 2019.
>
> (2) The commission has power upon complaint or upon its own motion to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state by or during the rate effective period and shall exercise such power whenever it deems such valuation or determination necessary or proper under any of the provisions of this title. The valuation may include consideration of any property of the public service company acquired or constructed by or during the rate effective period, including the reasonable costs of construction work in progress, to the extent that the commission finds that such an inclusion is in the public interest and will yield fair, just, reasonable, and sufficient rates.
>
> (3) The commission may provide changes to rates under this section for up to forty-eight months after the rate effective date using any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates. The commission must establish an appropriate process to identify, review, and approve public service company property that becomes used and useful for service in this state after the rate effective date.

The Commission further observes that this language reflects amendments the Legislature made during consideration of CETA, and those amendments are found in chapter 288, Laws of 2019, the same legislation that enacted CETA.[229]

93 In interpreting the phrase "used and useful," the Washington State Supreme Court has explained "'Used' is defined as 'employed in accomplishing something'; 'useful' is defined as 'capable of being put to use: having utility: advantageous: producing or having the power to produce good: serviceable for a beneficial end or object.'"[230] The Court further explained "RCW 80.04.250 empowers the Commission to determine, for ratemaking purposes, the fair value of property which is employed for service in Washington *and* capable of being put to use for service in Washington."[231] By extension, "[w]hen calculating a utility's rate base for ratemaking, if the WUTC considers utility plant that 'is neither employed for service nor capable of being put to use for service; . . . such plant is

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[229] See, e.g., RCW 19.405.010 (reflecting the title "Findings – Intent – 2019 c 288").

[230] *POWER v. State Utils. & Transp. Com*, 101 Wn.2d 425, 430 (1984) (*citing Webster's Third New International Dictionary* 2524 (1976)).

[231] *POWER v. State Utils. & Transp. Com*, 101 Wn.2d 425, 430 (1984).

not 'used and useful' for service' and the [Commission] exceeds its statutory authority."[232] The Commission has also previously interpreted "the phrase 'used and useful for service in this state' to mean benefits to ratepayers in Washington, either directly (e.g., flow of power from a resource to customers) and/or indirectly (e.g., reduction of cost to Washington customers through exchange contracts or other tangible or intangible benefits)."[233]

94 However, the Commission's inquiry regarding the used and useful standard is further informed by the requirements of CETA. Specifically, RCW 19.405.030(1) states that "[o]n or before December 31, 2025, each electric utility must eliminate coal-fired resources from its allocation of electricity. This does not include costs associated with decommissioning and remediation." RCW 19.405.020(1) further defines "allocation of electricity" as, "for the purpose of setting electricity rates, the costs and benefits associated with the resources used to provide electricity to an electric utility's retail electricity consumers that are located in this state." As such, RCW 19.405.030(1) prohibits a utility from including the benefits and costs associated with coal power in its retail customer electricity rates after December 31, 2025, other than costs associated with decommissioning and remediation.

95 As CETA requires that PSE remove the benefits and costs of coal power from its retail customer rates as of January 1, 2026, the Commission determines that costs associated with capital investments in Colstrip based on benefits that are realized after 2025 must be excluded from rates. The Commission generally agrees with the non-company parties that this outcome may be achieved by prorating the Company's recovery of costs based on the portion of their useful lives in service prior to the CETA deadline to remove coal power from PSE's allocation of electricity.

96 The Commission disagrees with PSE's argument that the 2017 and 2022 GRC settlements support the Company's request for full recovery of its assets or that proration would be unjust because it contradicts those settlements. Regarding the 2017 GRC settlement, the Commission observes that this settlement was approved prior to the enactment of CETA. Insofar as the 2017 GRC settlement did not contemplate the additional requirements under CETA, the Commission is not persuaded that settlement controls the Commission's analysis in this proceeding. Furthermore, review of the order approving the 2017 GRC settlement indicates that the terms regarding depreciation only apply to those investments that were known at the time of the settlement:

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[232] *Ofc. of the Atty. Gen., Pub. Counsel Unit v. Wash. Utils. & Transp. Comm'n*, 4 Wn. App. 2d 657, 682 (2018) (quoting *POWER v. State Utils. & Transp. Com*, 101 Wn.2d 425, 430 (1984)).

[233] *WUTC v. PacifiCorp*, Dockets UE-050684 & UE-050412 (*consolidated*), Order 04/03 at 21-22 ¶ 50 (Apr. 17, 2006).

> Balancing PSE's interest in recovering **all of the net plant amounts remaining on its books for the Colstrip units as of September 30, 2016**, against the Settling Parties' common interest in protecting ratepayers from significant rate impacts and avoiding intergenerational inequities, the Settlement Stipulation establishes two new accounts.
>
> . . .
>
> In the final analysis, we determine that the Settlement Stipulation takes advantage of the unique circumstances in which PSE, without significant rate impacts, is able to recover fully the undepreciated Colstrip plant balances **on the Company's books** on significantly shortened depreciation schedules tied to the known retirement date for Units 1 & 2 and a well-considered change for Units 3 & 4.[234]

As such, as the assets on issue in this proceeding were not "on the Company's books" at the time of the 2017 GRC settlement, the Commission does not interpret that settlement as presently controlling.

97 Turning to the 2022 GRC settlement, while PSE is correct that the record reflects that the settling parties in that case contemplated terminal depreciation,[235] the settlement also expressly provides for additional review of investments related to Colstrip:

> j. Colstrip. PSE will move Colstrip rate base and expense into a separate tracker under Schedule 141-C, as proposed in the testimony of Susan E. Free (Exh. SEF-18). PSE agrees to exclude capital investments associated with the construction of PSE's Colstrip dry ash facilities from recovery in base rates in this case and PSE's proposed Schedule 141-C tracker. **The Settling Parties agree that Colstrip costs included in rates in 2023 and beyond (including major maintenance expense and new plant additions) are subject to review, including but not limited to an examination of prudence, in PSE's annual Schedule 141-C tariff filing.** Major maintenance costs incurred during the MYRP will be amortized over three years, regardless of the year incurred. Costs amortized after 2025 would not be recovered in rates. **The Settling Parties retain all rights to challenge Colstrip costs when PSE files tariff revision for the tracker**.[236]

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[234] *WUTC v. Puget Sound Energy*, Dockets UE-170033 & UG-170034 (*consolidated*), Order 08 at 40, 50-51 ¶¶ 111, 136 (Dec. 5, 2017) (emphasis added, internal citations omitted).

[235] Free, Exh. SEF-1T at 6:1-21; Free, TR. at 115:12 – 116:13.

[236] *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067, & UE-210918 (*consolidated*), Order 24/10, Appendix A at 7-8 ¶ 23 j (Dec. 22, 2022) (emphasis added).

Given that the 2022 GRC settlement clearly preserved the parties' ability to challenge the inclusion of subsequent costs related to Colstrip in a future proceeding, PSE cannot reasonably rely on the 2022 GRC settlement as requiring the inclusion of all Colstrip costs at issue in this proceeding. The 2022 GRC settlement did not preapprove any of the assets that are currently before the Commission for review and does not preclude the Commission from disallowing costs that fail to satisfy applicable legal standards on a prorated basis.

98 The Commission further disagrees with PSE's assertion that prorating its recovery in this case would be unfair and contrary to the Commission's Used and Useful Policy Statement. The Used and Useful Policy Statement states in part that "rates must be fair to both customers and the public service company[.]"[237] Although the Company maintains that it would be unfair to prorate the recovery of its Colstrip investments because it was obligated by its ownership agreement to fund its full share of those assets, that agreement was entered into at the discretion of PSE and PSE's customers had no control over whether to accept those terms. To the extent that PSE argues that it lacks discretion because of the O&O Agreement, that lack of discretion was created by PSE's own actions. The Commission also rejects PSE's argument that Washington customers will receive the full benefit of Colstrip costs associated with capital projects and maintenance regimes that extend past the CETA deadline to remove coal from the allocation of electricity.[238] As the Company stated at hearing, Colstrip provides no benefit to ratepayers after 2025:

> Q: So if you could look at your rebuttal testimony at Page 11, Lines 11 to 13. Actually, 13 to 14. And it indicates that, in response to AWEC's testimony, that as of December 31st, 2025, Colstrip is not necessary or useful in the performance of any PSE duties to the public; is that correct?
>
> A: That is correct.[239]

99 Witness Atwood similarly testified:

> Q: Just to clarify: CETA requires that coal be out of rates effective December 31st, 2025. Is that your understanding?
>
> A: Yes.

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[237] Policy Statement on Property that Becomes Used and Useful After the Rate Effective Date, Docket U-190531 at 14-15 ¶ 43 (Jan. 31, 2020).

[238] Atwood, Exh. NLA-1T at 20:4-6.

[239] Roberts, TR. at 103:23 – 104:4. *See also* Roberts, Exh. RJR-1T at 11:13-14 ("As of December 31, 2025, as AWEC knows, Colstrip is not necessary or useful in the performance of any PSE duties to the public.").

> Q: And so after that date, coal plant will not be used to serve Washington ratepayers; is that correct?
>
> A: It will not be operational to serve customers, PSE customers.
>
> Q: In Washington?
>
> A: Yes.
>
> . . .
>
> Q: Is the Colstrip plant after December 31st, 2025, worth anything to Washington customers?
>
> A: Puget Sound Energy cannot have it in its rates. By getting out of the plant at the end of the required timeline, Washington customers benefit from a cleaner portfolio.
>
> Q: Okay. So there's a benefit. But in terms of the actual output of Colstrip, is there any value to Washington customers after that date?
>
> A: There will not be benefit of operating after that date, no.[240]

100 While the Commission must carefully evaluate the needs of both customers and the Company, the Commission does not find that it would be fair to require Washington customers to bear the full costs of assets from which they will only receive a fraction of the benefits relative to those assets' useful lives. Rather, prorating the assets based on the portion of their useful lives in service prior to the CETA deadline to remove coal power from PSE's allocation of electricity appropriately assigns fair costs to ratepayers relative to the benefit they actually receive from the Colstrip assets.[241]

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[240] Atwood, TR. at 56:7-16, 76:1-12. The Commission notes that while the witness did further respond that "Well, the [Colstrip] power will be on the grid" and that "would potentially be a benefit in some way," this assertion is speculative and conflicts with the witness's earlier statement that Colstrip could not serve Washington customers after 2025. Atwood, TR. at 76:16 – 77:7.

[241] On the issue of fairness, the Commission also notes that the Company was aware of the possibility that certain Colstrip assets may be subject to disallowance as part of this proceeding. *See* Roberts, Exh. RJR-1T at 13:10-12 (explaining that PSE voted no on certain budget items in part because "PSE felt that the possibility of a disallowance by the Commission would leave the Company in a difficult negotiating position with NorthWestern should PSE not have some logic to its No votes.").

i. Human Health and Safety Investments

101 However, the Commission determines that the six human health and safety projects should be fully recovered by PSE because they provide a benefit beyond facilitating the generation of electricity.[242] As testified to by Staff, these projects were intended to address employee health and safety hazards related to Colstrip operations:

> Two of the projects (the Snubber Rebuild and the Hot Reheat Elbow Replacement) address risks associated with damaged or out-of-code high-pressure steam lines where failure of the existing equipment could result in the release of 1000 degree high-pressure steam onto the turbine deck, one of the projects (the switchgear mod) is necessary for code compliance and addresses the risks that plant personnel will be exposed to high-energy arc flash events, and one of the projects (the coal pipe replacement) addresses coal pipe leaks which increase the risks of explosions and create employee health hazards such as an elevated risk of silicosis, pneumonia, and black lung.
> . . .
> The boiler scaffolding provides a safe structural environment during boiler inspections and repairs, and the boiler elevator allows large and heavy equipment to be safely moved to various locations on the boiler.[243]

102 The Commission agrees with Staff's assessment that the "near-term benefits of th[e]se projects exceed the cost of their investment," and determines that they should be fully included in rates.[244] The Company's ratepayers benefit from reasonable human safety investments that reduce the Company's risk of liability in the event of an incident resulting in injury or death to plant workers. Absent such investment, investors may be led to perceive the Company as relatively riskier, which could in turn require a greater degree of compensation to investors to account for that risk, thereby increasing overall future rates to customers.[245] Although utilities must transition away from certain resources to comply with CETA, the Commission does not want to create an incentive for utilities to avoid reasonable safety investments for such resources that place workers in threat of harm,

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[242] Specifically, the six human safety projects are (1) Switchgear modification; (2) the U4 Boiler Snubber rebuild; (3) the Coal Pipe Replacement; (4) the U4 Hot Reheat Elbow Replacement; (5) the U4 Boiler Scaffolding; and (6) the U4 Boiler Elevator. McGuire, Exh. CRM-1T at 9:15-20.

[243] McGuire, Exh. CRM-1T at 10:4-19 (citations omitted). *See also* Cebulko, Exh. BTC-1CT at 26:9 – 27:10 (recommending full recovery of the same six human safety projects).

[244] McGuire, Exh. CRM-1T at 11:2-5.

[245] RCW 19.405.010(2) ("In implementing this chapter, the state must . . . provide safeguards to ensure that the achievement of this policy does not impair the reliability of the electricity system or impose unreasonable costs on utility customers."

which generally would be contrary to the public interest.[246] The Commission has no desire to see the transformation of Washington's energy supply to clean energy built upon a foundation of unnecessary hazards and risk of harm to workers.

ii. Assets with 2025 In-Service Dates

103 With respect to assets with in-service dates in 2025, the Commission determines that such assets should be prorated consistent with the Commission's used and useful analysis discussed above. Regarding the U4 Generator Exciter and the Northern Cheyenne AAQ System, the Commission finds that PSE should be required, as a condition of compliance with this order, to make a supplemental filing indicating when these two investments were placed into service. If these investments were placed into service on or before December 31, 2025, the Company should be allowed to recover a pro rata portion of these investments for two reasons. First, to the extent that these assets are placed into service on or before the deadline to remove coal from rates, they have provided some benefit to Washington customers that warrants proportional recovery in the interest of fairness. Second, because CETA requires that coal power be removed from PSE's allocation of electricity after 2025, PSE will not have another opportunity to recover these costs in a subsequent proceeding. As such, the Commission exercises its discretion to require PSE to file an update to the record as a condition of compliance with this order due to the requirements of CETA but cautions that this unique situation should not be interpreted as setting a general precedent for future GRCs.

B. Prudence

104 During GRC proceedings, the Commission determines the prudence of utility expenditures by reviewing whether the utility made reasonable business decisions in light of the facts and circumstances known or that reasonably should have been known to the utility at the time decisions were made.[247] What is reasonable requires assessment of choices made, in light of circumstances and possible alternatives, based on industry norms and practices.[248]

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[246] *See,* RCW 19.405.010(4)(" The legislature finds that Washington can accomplish the goals of chapter 288, Laws of 2019 while: . . . maintaining safe and reliable electricity to all customers at stable and affordable rates[.]"); RCW 80.28.425(1) (stating in part ""[i]n determining the public interest, the commission may consider such factors including, but not limited to, . . . health and safety concerns . . . to the extent such factors affect the rates, services, or practices of a[n] . . . electrical company.").

[247] *WUTC v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 12 at 8-9 ¶ 19 (Apr. 7, 2004).

[248] *WUTC v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 12 at 8-9 ¶ 19 (Apr. 7, 2004).

Prudence does not require a single, ideal decision, but requires the utility to make a reasonable decision among a number of alternatives that the Commission might find prudent.[249] The prudence review "requires evaluation of the Company's decisions not just from the perspective of management for the benefit of shareholders, but also for the benefit of customers."[250] The fundamental question for decision is whether management acted reasonably in the public interest, not merely in the interest of the company.[251]

105 The prudence standard applies to both the question of need and the appropriateness of the expenditure.[252] The Commission considers three broad questions when evaluating prudence: (1) Was the initiation of the project prudent; (2) Was the continued implementation of the project prudent; and (3) Were the expenses prudently incurred?[253] The second and third factors are examined using the same prudence test as the first factor, but applied at a different point in time and necessarily premised on a reevaluation of the project.[254] Consequently, the Commission's prudency review is not limited to a single point in time and encompasses the implementation and construction phases of a project to ensure that a regulated utility continues to reasonably control and evaluate a project.

106 As noted above, when evaluating prudence, the Commission reviews utility decision-making at the time decisions were made. Stated differently, the Commission will not use the benefit of hindsight when evaluating prudence.[255] Consequently, regulated utilities are required to maintain contemporaneous records of their decision-making process and analysis to satisfy the Commission's prudency standard.[256] A utility's "robust discussions" about a project, with a "consensus" on decisions, is not sufficient to demonstrate

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[249] *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 & UG-090705 (*consolidated*), Order 11 at 119 ¶ 337 (Apr. 2, 2010).

[250] *WUTC v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 14 at 34-35 ¶ 65 (May 13, 2004).

[251] *WUTC v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 14 at 34-35 ¶ 65 (May 13, 2004) (*quoting* Goodman, The Process of Ratemaking, at 857).

[252] *WUTC v. PacifiCorp*, Docket UE-152253, Order 12 at 33 ¶ 94 (Sept. 1, 2016).

[253] *WUTC v. PacifiCorp,* Docket UE-152253, Order 12 at 34 ¶ 95 (Sept. 1, 2016).

[254] *WUTC v. PacifiCorp,* Docket UE-152253, Order 12 at 34 ¶ 95 (Sept. 1, 2016).

[255] *WUTC v. PacifiCorp,* Docket UE-152253, Order 12 at 34 ¶ 94 (Sept. 1, 2016).

[256] *WUTC v. Puget Sound Power & Light Company*, Dockets UE-920433, UE-920499, & 921262, 19th Supp. Order, at 15-16 (Sept. 27, 1994) ("The company's lack of contemporaneous evaluation and documentation is, at best, poor management practice."); *WUTC v. PacifiCorp,* Docket UE-152253, Order 12 at 36 ¶ 102 (Sept. 1, 2016) ("However, this memo was prepared after the final decision to proceed was made, and therefore cannot be shown to have played a part in the Company's decision-making.").

prudence.[257] Rather, "the parties and Commission should be able to follow the company's decision-making process, knowing what elements the company used, and the manner in which the company valued those elements. Such a process should certainly be documented."[258] "Documentation and evidence of prudence decision making must be kept contemporaneously with a company's decision making or the Commission's ability to evaluate prudence is thwarted."[259]

107 The Commission has previously explained that its review of prudence typically focuses on four factors:

> 1) *The Need for the Resource:* The utility must first determine whether new resources are necessary. Once a need has been identified, the utility must determine how to fill that need in a cost-effective manner. When a utility is considering the purchase of a resource, it must evaluate that resource against the standards of what other purchases are available, and against the standard of what it would cost to build the resource itself.
>
> 2) *Evaluation of Alternatives:* The utility must analyze the resource alternatives using current information that adjusts for such factors as end effects, capital costs, dispatchability, transmission costs, and whatever other factors need specific analysis at the time of a purchase decision. The acquisition process should be appropriate.
>
> 3) *Communication With and Involvement of the Company's Board of Directors:* The utility should inform its board of directors about the purchase decision and its costs. The utility should also involve the board in the decision process.
>
> 4) *Adequate Documentation:* The utility must keep adequate contemporaneous records that will allow the Commission to evaluate the Company's decision-making process. The Commission should be able to follow the utility's decision process; understand the elements that the utility used; and determine the manner in which the utility valued these elements.[260]

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[257] *WUTC v. Puget Sound Power & Light Company*, Dockets UE-920433, UE-920499, & 921262, 19th Supp. Order at 16 (Sept. 27, 1994).

[258] *WUTC v. Puget Sound Power & Light Company*, Dockets UE-920433, UE-920499, & 921262, 19th Supp. Order at 16 (Sept. 27, 1994).

[259] *In re Investigation Regarding Prudency of Outage and Replacement Power Costs*, Docket UE-190882, Order 5 at 12 ¶ 43 (Mar. 20, 2020).

[260] *WUTC v. Puget Sound Energy*, Dockets UE-111048 & UG-111049 (*consolidated*), Order 08 at 148 ¶ 409 (May 7, 2012) (citation omitted).

108 As stated above, the Commission has already disallowed the costs associated with Colstrip investment assets' remaining useful lives after 2025 based on those portions of the assets not providing any service or benefit to Washington customers. Consequently, the Commission's prudence review is limited to the remaining portions of those costs.

109 The Commission finds that the Company has sufficiently demonstrated that the remaining portions of the assets and costs it seeks to include in rates are prudent.[261] With regard to the question of need, PSE has made a reasonable showing of the need for the assets based on the analysis prepared by the Colstrip operator and the forecasted costs of replacement power.[262] The Commission is not persuaded that the Company's decision to vote "no" on certain capital investments is evidence of a lack of need, as the Company's voting strategy can be informed by several considerations, including CETA compliance and prior Commission orders.[263] The Commission also disagrees that investments that extend the life of Colstrip are categorically prohibited under the prudence standard. Both Staff and NWEC cite to the Commission's order in Avista's 2020 GRC to support their argument that investments that extend the life of Colstrip must be excluded from the Company's rates.[264] However, the Commission's consideration of whether the Dry Ash Disposal project was life extending was a product of Avista's settlement obligations from a prior GRC, not a component of the Commission's general prudence standard.[265]

110 The Commission also rejects the premise that the prudence standard requires a specific form of cost-benefit analysis. While a utility must include some form of analysis as part of its demonstration of need and consideration of alternatives, the Commission does not require a particular type of analysis under the general prudence standard, leaving the utility with discretion to develop a cost analysis that is reasonable under the circumstances. The Commission finds that the discussion of the prudence of Avista's advanced metering infrastructure investment in the first Avista 2015 GRC order is distinguishable, as in that

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[261] The Commission declines AWEC's invitation to articulate a prudence standard regarding all investments that extend the life of fossil fuel resources that departs from its longstanding prudence framework. The Commission is not persuaded that a modification of its well-established standard is necessary or warranted.

[262] Atwood, Exh. NLA-7C.

[263] Roberts, Exh. RJR-1T at 13:10-12.

[264] Brief of Staff at 10 ¶ 23; Brief of NWEC at 6 ¶ 15.

[265] *WUTC v. Avista Corp.*, Dockets UE-200900, UG-200901, & UE-200894 (*consolidated*), Order 08/05 at 100 ¶ 279 (Sept. 27, 2021) ("Lastly, we are uncertain that Dry Ash is not a life-extending capital addition. Our 2019 Avista GRC Final Order approved a settlement that included an agreement by Avista not to support capital expenditures beyond routine capital maintenance costs that would extend Colstrip's operational life beyond December 31, 2025.").

case Avista had not yet implemented its AMI program and the prudence of AMI was not sufficiently ripe for adjudication.[266] However, the first Avista 2015 GRC order does highlight the fact that, while the Commission will not "preapprove" a particular type of analysis to support prudence, a utility risks a disallowance if it presents an analysis that has insufficient detail or otherwise lacks credibility.[267] Additionally, the Commission's discussion in PacifiCorp's 2005 GRC regarding the demonstration of "tangible and quantifiable benefits to Washington of resources in the system," was in the context of reviewing PacifiCorp's interjurisdictional allocation methodology, rather than as part of a prudence review.[268]

111 However, the Commission agrees that the O&O Agreement does not independently satisfy the required showing of need under the prudence standard. While the O&O Agreement creates an obligation for PSE to pay for its proportional share of budget items that are approved by the Colstrip owners, the owners' approval is not determinative of whether a utility has demonstrated a reasonable need. If the fact that PSE is required to fund its portion of investments pursuant to a contract were all that is necessary to demonstrate need, the need would be met for every Colstrip asset approved, which would effectively nullify the Commission's prudency review. Furthermore, the Commission has previously disallowed Colstrip assets that the owners voted to approve based on a finding of lack of need, such as the Commission's previous SmartBurn disallowance, which further supports a determination that the O&O Agreement's obligation to pay does not, by itself, satisfy the need component of the prudence standard.[269]

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[266] *WUTC v. Avista Corp*, Dockets UE-150204 & UG-150205 (*consolidated*), Order 05 at 71 ¶ 199 (Jan. 6, 2016)("In conclusion, we decline to rule on the prudency of Avista's proposed AMI investment in this case because the issue is not ripe for our determination. This decision should not be interpreted as a rejection of AMI. The Company must decide what metering program provides ratepayers the most benefit at the least cost.").

[267] *WUTC v. Avista Corp*, Dockets UE-150204 & UG-150205 (*consolidated*), Order 05 at 69 ¶ 193 (Jan. 6, 2016) ("While we do not make a decision regarding the prudence of this project in this proceeding, we note the considerable uncertainty surrounding the business case analysis Avista prepared. . . . We look forward to a more refined cost-benefit analysis in a future proceeding, including a fuller discussion of "non-quantifiable benefits" suggested by Mr. Kopzcynski.").

[268] *WUTC v. PacifiCorp*, Dockets UE-050684 & UE-050412 (*consolidated*), Order 04/03 at 27-28 ¶ 68 (Apr. 27, 2006).

[269] *WUTC v. Avista Corp.*, Dockets UE-200900, UG-200901, & UE-200894 (*consolidated*), Order 08/05 at 98 ¶ 274 (Sept. 27, 2021) (disallowing SmartBurn investment in Colstrip because the utility "failed to demonstrate that SmartBurn was necessary and failed to produce documentation sufficient to demonstrate that its costs were prudently incurred.").

112 Turning to the NPV analysis supporting PSE's Colstrip costs in this case, the Commission agrees with the non-company parties that the analysis is questionable in some respects. Although the Commission agrees that PSE's failure to fund an approved capital investment will result in default under the O&O Agreement, the record does not indicate that Talen's decision to assume 100 percent probability of failure was intended to reflect a shareholder's default.[270] However, while the persuasiveness of the NPV analysis is weakened by the fact that the analysis is not risk adjusted, the Commission is not persuaded that this condition makes the analysis wholly unreliable.

113 Additionally, in light of the Commission's above analysis excluding the portions of Colstrip investments not used and useful in Washington after 2025, the Commission finds that the NPV analysis is sufficiently reasonable even though it is not performed from the perspective of Washington ratepayers. While the Commission will not proscribe the type of analysis that a utility may utilize to support its showing of prudence, if such analysis is based on general rather than Washington-specific data, the utility should be able to explain how that data supports prudence from the perspective of Washington ratepayers. In some cases, there may be no distinction between the general benefit and the Washington specific benefit, insofar as the Washington benefit is a proportional share of the general benefit. But, in circumstances where the Washington benefit may materially diverge from the general benefit, such as when a resource may no longer be used to provide service in Washington, further analysis should be performed to verify that the investment is still prudent with respect to Washington ratepayers.

114 Based on the above discussion, the Commission finds that the Company has demonstrated a need for the prorated portions of the Colstrip assets in this case based on the NPV analysis and forecasted replacement power costs.[271] The same evidence also supports a finding that the Company considered alternatives to continuing to fund Colstrip and that it documented its reasoning contemporaneously. The record also demonstrates that the Company informed and consulted with its management about the investment decisions related to Colstrip.[272]

115 As to the equity considerations raised by Public Counsel regarding PSE's full inclusion of Colstrip costs, the Commission has addressed this issue by prorating PSE's recovery of

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[270] Atwood, Exh. NLA-7C; Exh. NLA-9.

[271] Atwood, Exh. NLA-7C.

[272] Atwood, Exh. NLA-1T at 20:8-17; De Villiers, Exh. SDV-3C, Attach. A.

Colstrip costs.[273] Prorating PSE's recovery of investments in Colstrip promotes equity by appropriately assigning costs to Washington customers relative to the benefits that they will receive before coal-fired resources can no longer be included in PSE's allocation of electricity. The Commission's analysis in this matter is also informed by the numerous public comments filed in this docket raising concerns about affordability and opposing continued support for coal-fired resource operations past 2025 despite CETA's mandate to remove coal from the allocation of electricity.[274]

i. SmartBurn

116 In this docket, PSE is seeking recovery for costs associated with four components of the NOx control system:

- Unit 4 Boiler Burner AuxAir Replacement (Boiler Burner)
- Unit 4 Separated Over Fire Air Bucket Replacement (SOFA)
- Unit 4 Top Over Fire Air Bucket Replacement (TOFA)
- Control Room Operator (CRO)[275]

117 Although the Commission finds general prudence in PSE's Colstrip investments, the Commission finds that specific Company investments labelled "SmartBurn" were not prudently incurred because the Company did not demonstrate that the investments were necessary, based on the Commission's prior disallowance of certain SmartBurn investments.[276]

118 In PSE's 2019 GRC, the Commission disallowed recovery of investments in SmartBurn technology that is associated with the NOx Combustion Control system after the Commission found that "PSE failed to demonstrate that the costs related to PSE's

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[273] Brief of Public Counsel at 20-22 ¶¶ 61-68; *WUTC v. Cascade Natural Gas Corp.*, Docket UG-210755, Order 09 at 19-20 ¶ 59 (Aug. 23, 2022) (retaining discretion to evaluate equity on a case-by-case basis). However, the Commission declines to consider the articles cited by Public Counsel in its briefing, as those articles are not part of the record in this case, and Public Counsel has not motioned for the Commission to take official notice of those articles or explained why they could not have been previously submitted to the record.

[274] *See generally* BR 5, Public Comment Exhibit.

[275] Atwood, Exh NLA-11T at 4:12-19, 7:3-12.

[276] *WUTC v. Puget Sound Energy*, Dockets UE-190529, UG-190530 (consolidated), UE-190274, UG-190275 (*consolidated*), UE-171225, UG-171226 (Consolidated), UE-190991 & UG-190992 (*consolidated*), Order 08/05/03 at 61 ¶ 197 (Jul. 8, 2020).

SmartBurn investment were prudently incurred[,]"[277] In particular, the Commission found that PSE failed to demonstrate that SmartBurn was necessary and "failed to maintain appropriate documentation of its decision to install SmartBurn."[278] During the initial rounds of testimony in this docket, the parties were not clear on what components of the NOx control system were related to the SmartBurn investments the Commission previously disallowed in PSE's 2019 GRC. In response to DR 19 from NWEC, the Company identified the Boiler Burner, SOFA, and TOFA as SmartBurn technology.[279] However, PSE clarified that the only component of the NOx control system that had been previously disallowed was the TOFA component.[280] The Company confirms that the Boiler Burner and SOFA investments on Units 3 and 4 were installed prior to 2016 and were not part of the 2019 GRC.[281]

119 Because PSE's investment in the SmartBurn TOFA component of the NOx control system has been previously disallowed as imprudent, we analyze PSE's request for recovery for investment in replacing the TOFA component for prudence. The Company has argued that although the Commission disallowed recovery of its investment in the TOFA component in the 2019 GRC, that should not influence the Commission's decision in this matter, and the Commission should only look to the record in this docket and not a previous docket to determine prudence.

120 In determining whether an investment was prudently incurred, we consider what the Company knew at the time it made the investment. The Company was aware that the Commission had previously found its costs related to investment in SmartBurn/TOFA to be imprudently incurred at the time it invested in the replacement component.[282] We can understand the Company's concerns that that the TOFA component is an integrated part of the NOx control system and that the TOFA replacement was necessary because the plant

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[277] *WUTC v. Puget Sound Energy*, Dockets UE-190529, UG-190530 (*consolidated*), UE-190274, UG-190275 (*consolidated*), UE-171225, UG-171226 (*consolidated*), UE-190991 & UG-190992 (*consolidated*), Order 08/05/03 at 61 ¶ 197 (Jul. 8, 2020).

[278] *WUTC v. Puget Sound Energy*, Dockets UE-190529, UG-190530 (consolidated), UE-190274, UG-190275 (*consolidated*), UE-171225, UG-171226 (Consolidated), UE-190991 & UG-190992 (*consolidated*), Order 08/05/03 at 61 ¶ 197 (Jul. 8, 2020).

[279] Cebulko, Exh. BTC-6.

[280] PSE's Response to BR 2 at 2 (September 10, 2025); PSE's Revised Response to BR 6 at 1 (October 30, 2025).

[281] PSE's Response to BR 5 at 2 (October 27, 2025).

[282] *See WUTC v. Puget Sound Energy*, Dockets UE-190529, UG-190530 (*consolidated*), UE-190274, UG-190275 (*consolidated*), UE-171225, UG-171226 (*consolidated*), UE-190991 & UG-190992 (*consolidated*), Order 08/05/03 at 61 ¶¶ 197-199 (Jul. 8, 2020).

cannot run without it. However, the Company has not provided additional documentation to demonstrate prudence in its TOFA investment, thus there is not sufficient information in the record to persuade us that the Company's investment was prudently incurred. Because the Company's investment in relation to the SmartBurn TOFA component is not prudent, we find that the Commission should disallow cost recovery related to the TOFA component.

121 The Company clarified that the CRO, Boiler Burner, and SOFA components were installed in the NOx control system prior to its 2019 GRC and were not subject to the decision in that order. Further, the Company has conceded that the TOFA component was disallowed as imprudent.[283]

122 We find the installation timeline of the SOFA component provided by the Company sufficiently rebuts NWEC's argument because it demonstrates that SOFA was installed on Colstrip Units 3 and 4 in 2007 and 2009 respectively, and was not subject to the 2019 GRC decision.[284] Because the Boiler Burner, CRO, and SOFA components of the NOx control system were not subject to PSE's 2019 GRC, we do not find that recovery on investment for these components was disallowed in PSE's 2019 GRC. The Boiler Burner, CRO and SOFA are not subject to the same analysis as the TOFA component but are subject to the Commission's pro-rata analysis in the Used and Useful section of this order above.

ii. *Assets Lacking Capital Justification*

123 The Commission further determines that PSE has not demonstrated the prudence of four investments that lack capital justification.[285] As noted by NWEC, the Company has stated in both testimony and in response to discovery that there are no capital justifications for four projects, and those projects are not discussed in the Company's NPV analysis.[286] As such, the Commission determines that the Company has not demonstrated the need for these investments or provided contemporaneous documentation with respect to its decision to pursue these investments, and has not demonstrated that they are prudent.

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[283] Brief of PSE at 18-19 ¶ 32.

[284] PSE's Response to BR 2.

[285] Cebulko, Exh. BTC-1CT at 26:1-2 (identifying projects lacking capital justification as (1) Boiler Feed Pump Rebuild-Element; (2) PA Fan Motor Rewind/Refurb; (3) Boiler Feed Booster Pump RB; and (4) Motor Circ Wtr Pump Cap Spare).

[286] Cebulko, Exh. BTC-1CT at 25:13-18 (*citing* Atwood, Exh. NLA-1T at 11:1, fn. 17); Cebulko, Exh. BTC-7 at 1 (stating for each of the four projects "No Capital Justification available, inspection based work after removal.").

V. Operations & Maintenance Amortization

124 Staff contests a portion of PSE's major maintenance amortization expenses related to the 2024 Unit 4 outage. Staff explains that PSE has included a total major maintenance amortization expense of $4,201,653 related to four separate Colstrip outages, with the 2024 Unit 4 outage accounting for $1,609,006.[287] Staff contends that dividing the total 2024 Unit 4 outage cost of $4,471,694 by 36-months should result in a monthly amortization expense of $124,214, but PSE has included a monthly amortization expense of $134,048 in its filing.[288] Based on a monthly amortization cost of $124,214, Staff maintains that the annual amortization associated with the 2024 Unit 4 outage should be $1,490,565.[289] Staff recommends that the Commission reduce the annual major maintenance amortization expense included in rates from $1,609,006 to $1,490,565.[290]

125 PSE maintains that while Staff's methodology for calculating the annual amortization expense is correct, it is based on an incorrect total event cost for the 2024 Unit 4 outage.[291] The Company asserts that $4,471,694 included in its original filing was based on a preliminary amount rather than the final amount, and that the correct costs associated with the 2024 Unit 4 outage is $4,809,523.[292] Based on the correct amount, PSE argues that the correct total amortization for the 2024 Unit 4 outage is $1,603,174.[293]

Commission Determination

126 The Commission agrees with PSE's updated calculation of the annual amortization expense associated with the 2024 Unit 4 outage. PSE's updated calculation on rebuttal is based on the actual cost of the 2024 Unit 4 outage, rather than the preliminary estimate that was included in the Company's initial filing. As such, the amount associated with the annual amortization associated with the 2024 Unit 4 outage should be corrected from $1,609,006 to $1,603,174. The Commission further determines that major maintenance operations and

[287] McGuire, Exh. CRM-1T at 36:11-18.

[288] McGuire, Exh. CRM-1T at 37:10-16.

[289] McGuire, Exh. CRM-1T at 37:17-20.

[290] McGuire, Exh. CRM-1T at 37:22 – 38:4.

[291] Free, Exh. SEF-1T at 11:1-4.

[292] Free, Exh. SEF-1T at 11:4-10.

[293] Free, Exh. SEF-1T at 11:11 – 12:2.

maintenance expenses should be recovered consistent with the terms of PSE's 2022 GRC settlement.[294]

VI. Refund Process

127 Although PSE maintains that no refund is necessary, if the Commission does require a refund, the Company recommends that the Commission require the Company to either provide a refund directly to customers or apply the refund against PTCs.[295] PSE raises concerns that CETA's requirement to remove coal from its allocation of electricity after 2025 could be interpreted to prohibit a direct refund to customers through Schedule 141COL.[296] If the Commission determines that a direct refund is not permitted under CETA, the Company recommends applying the refund against its PTCs and states that customers would still be compensated for the time value of money because they would offset rate base in the Colstrip Tracker.[297]

128 Staff recommends that the Commission require the Company to directly refund any over collected amounts through PSE's Schedule 141COL beginning in 2026.[298] Specifically, Staff argues that the Commission should require PSE to refund over-collected amounts after 2024 plant additions are trued up to actuals, as PSE's original filing did not have actual costs for all of the 2024 projects.[299] Staff further asserts that the Commission should maintain currently effective rates through 2025 and order PSE to refund trued-up over-collected amounts over the course of 2026 through Schedule 141COL.[300] Staff contends that requiring PSE to file compliance tariff revisions to Schedule 141COL, with an effective date of Jan. 1, 2026 and containing trued-up 2024 plant amounts, would simplify the refund calculation, allow the trued-up amounts to be reflected in the refund, and reduce the number of tariff revisions required by PSE.[301]

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[294] *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067, & UE-210918 (*consolidated*), Order 24/10, Appendix A at 7-8 ¶ 23 j (Dec. 22, 2022) (stating in part "Major Maintenance costs incurred during the MYRP will be amortized over three years, regardless of the year incurred. Costs amortized after 2025 would not be recovered in rates.").

[295] Brief of PSE at 23 ¶¶ 40-41; Free, Exh. SEF-1T at 14:2 – 15:16.

[296] Free, Exh. SEF-1T at 14:6-17.

[297] Brief of PSE at 23 ¶ 41; Free, Exh. SEF-1T at 15:1-16.

[298] Brief of Staff at 19-20 ¶ 39; McGuire, Exh. CRM-1T at 39:19 – 40:5.

[299] McGuire, Exh. CRM-1T at 29:13-19; 39:3-17.

[300] McGuire, Exh. CRM-1T at 39:19 – 40:8.

[301] McGuire, Exh. CRM-1T at 31:12 – 32:4.

129 Public Counsel maintains that the Commission should require PSE to directly refund any over collected amounts either through a one-time bill credit or over a period not to exceed one year.[302] Public Counsel states that a direct refund is more appropriate than waiting to apply any refund against future decommissioning and remediation expenses because customers benefit more from a direct refund due to the time value of money.[303]

130 NWEC recommends that the Commission require PSE to refund over collected amounts directly to customers rather than apply that refund against PTCs.[304] While AWEC recommends that the Commission disallow various costs PSE included in its filing, it does not provide a recommendation regarding the mechanism for refunding the disallowance.[305]

Commission Determination

131 The Commission requires PSE to directly refund over collected amounts to customers consistent with the method identified by Staff, rather than apply those costs against future PTCs. Staff's proposed method is administratively efficient and will provide more immediate relief to PSE's customers, which is in the public interest and promotes equity. While the Commission appreciates PSE's concern regarding whether a refund complies with CETA's requirement to remove coal power from the allocation of electricity, the Commission does not interpret RCW 19.405.030(1) to prohibit a refund under these circumstances. When the Commission authorized rates to go into effect in this proceeding, it did so subject to refund based on further development of the record and adjudication.[306] As such, the refund required in this case represents an adjustment to rates that were in effect from the end of 2024 to the end of 2025, when the costs and benefits associated with coal power could still be included in rates.

VII. 2025 Colstrip Plant Filing

132 Staff recommends that the Commission clarify the anticipated process for review of PSE's offsetting of 2025 Colstrip plant additions against PTCs. Staff further suggests that the annual Schedule 141COL tariff revision docket filing on or before September 30, 2026, would be a reasonable venue to review PSE's use of PTCs and potentially contesting

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[302] Brief of Public Counsel at 24-25 ¶ 76.

[303] Brief of Public Counsel at 24-25 ¶¶ 74-76; Dreyer, Exh. JMD-1CTr at 8:15 – 9:3.

[304] Cebulko, Exh. BTC-1CT at 3:12-13.

[305] Brief of AWEC at 10 ¶ 20.

[306] *WUTC v. Puget Sound Energy*, Docket UE-240729, Order 01 at 3 ¶ 9 (Dec. 23, 2024).

certain plant additions.[307] AWEC similarly argues that the Commission should require PSE to submit a filing regarding the Company's final regulatory accounting for Colstrip as of December 31, 2025, that will involve a prudence determination for plant balances that the Company proposes to offset with PTCs.[308] AWEC also asks that the Commission clarify that the same principles that apply to the Commission's review in this case will apply to the Commission's review of PSE's 2025 Colstrip plant additions.[309] Public Counsel also indicates that it supports AWEC's recommendation that the Commission evaluate the prudency of the Company's 2025 Colstrip plant additions to be applied against PTCs.[310] PSE states that it agrees with Staff's proposal regarding the treatment of 2025 plant requirements in PSE's annual Schedule 141COL filings.[311]

Commission Determination

133 The Commission agrees that it is appropriate to provide further guidance regarding the review of 2025 Colstrip plant additions and agrees with Staff's recommended process. The Commission requires PSE to file as part of its annual Schedule 141COL filing on or before September 30, 2026, its final proposed regulatory accounting for Colstrip costs as of December 31, 2025. As part of this filing, all interested parties and the Commission will have an opportunity to review whether such costs should be offset by PTCs. While the Commission does not prejudge any issues that may arise in the context of reviewing PSE's 2025 Colstrip investments, this Order should be understood as guidance with respect to the Commission's review in that proceeding.

FINDINGS OF FACT

134 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

135 (1) The Commission is an agency of the state of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, transfers

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[307] McGuire, Exh. CRM-1T at 34:13 – 36:7.

[308] Brief of AWEC at 9 ¶ 19; Mullins, Exh. BGM-1T at 12:11-20.

[309] Brief of AWEC at 10 ¶ 20.

[310] Brief of Public Counsel at 25-26 ¶ 78; Dreyer, Exh. JMD-2CT at 7:2-8.

[311] Free, Exh. SEF-1T at 16:2-5.

of property and affiliated interests of public service companies, including electric and companies.

136 (2) PSE is a "public service company," and an "electrical company," as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. PSE provides electric utility service to customers in Washington.

137 (3) On September 30, 2024, PSE filed with the Commission a proposed revision to rates under the established Colstrip Adjustment Rider Schedule 141COL.

138 (4) PSE requested an annual revenue increase of $4.1 million, or 0.14 percent, which for the typical residential customer using 800kWh per month would be a rate increase of $.18 or 0.16 percent.

139 (5) On December 19, 2024, the Commission entered Order 01 Complaint and Order Allowing Rates Subject to Later Review and Refund; Setting Matter for Adjudication in this docket, requiring PSE to file revised tariff pages no later than December 23, 2024, with an effective date of January 1, 2025, indicating that the increased rates are subject to refund. The Company was directed by Order 01 to file revised tariff pages, which the Company complied with on December 20, 2024.

140 (6) On September 3, 2025, the Commission convened a hybrid evidentiary hearing before the Commissioners that was presided over by ALJ's Harry Fukano and Jessica Kruszewski.

141 (7) Colstrip Units 3 and 4 are coal-fired generating units.

142 (8) At 12:00 a.m. on January 1, 2026, Pacific Standard Time, PSE's ownership interest will transfer to NorthWestern and costs associated with coal-fired generation of electricity will be removed from rates for electricity for PSE's Washington State customers.

143 (9) As of January 1, 2026, Colstrip will provide no benefit to Washington electric retail customers.

144 (10) As of January 1, 2026, Colstrip will not be necessary or useful in PSE's provision of electric service to Washington customers.

145 (11) Six Colstrip projects related to human health and safety provide near-term, immediate benefits that exceed the cost of investment. Those six projects are: (1)

Switchgear modification; (2) the U4 Boiler Snubber rebuild; (3) the Coal Pipe Replacement; (4) the U4 Hot Reheat Elbow Replacement; (5) the U4 Boiler Scaffolding; and (6) the U4 Boiler Elevator.

146 (12) PSE has not demonstrated that its remaining investments in Colstrip, other than the six human health and safety projects previously identified, provide any benefits to Washington customers after December 31, 2025.

147 (13) The record developed in this proceeding does not indicate when the U4 Generator Exciter and the Northern Chyanne AAQ System were placed into service.

148 (14) PSE has not demonstrated a need for four projects that lack capital justification. Those four projects are: (1) Boiler Feed Pump Rebuild-Element; (2) PA Fan Motor Rewind/Refurb; (3) Boiler Feed Booster Pump RB; and (4) Motor Circ Wtr Pump Cap Spare.

149 (15) PSE's costs for capital improvements to the SmartBurn TOFA component of Colstrip Units 3 and 4 were not prudently incurred because the Company was aware at the time it made the decision to replace the TOFA components, that the Commission had previously found PSE's investment in the TOFA component for Colstrip Units 3 and 4 imprudent. Because PSE's investment in the TOFA components in this docket were not prudently incurred, recovery of costs associated with TOFA components are disallowed.

150 (16) The Boiler Burner, CRO, and SOFA are not SmartBurn components that were previously disallowed in PSE's 2019 GRC.

151 (17) The NPV analysis provided by PSE demonstrates a reasonable need for PSE's Colstrip investments, other than the four projects lacking capital justification and the SmartBurn TOFA component, up to December 31, 2025, after which the assets cannot provide any benefit to Washington customers.

152 (18) For its remaining Colstrip investments and costs, PSE has provided sufficient evidence demonstrating that it considered alternatives to its Colstrip investments and costs, consulted with its management, and contemporaneously documented its analysis.

153 (19) PSE's annual amortization of the 2024 Colstrip Unit 4 outage is $1,603,174, rather than $1,609,006, based on its updated actual costs associated with the outage.

154 (20) PSE's annual amortization cost associated with the 2024 Colstrip Unit 4 outage should be adjusted to $1,603,174.

155 (21) Based on the analysis in this proceeding, PSE has over-collected $6,843,705 that should be refunded to its customers, subject to the true up required by this Order. The computation of the over-collected amounts is attached to this Order as Appendix A (Confidential).[312]

156 (22) Staff's recommended process for implementing a refund of over-collected amounts, as described in Exh. CRM-1T at 39:1 – 40:8 is reasonable and not contrary to CETA.

157 (23) Staff's recommended process for reviewing PSE's 2025 Colstrip investments is reasonable.

CONCLUSIONS OF LAW

158 Having discussed above all matters material to this decision, and having stated the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

159 (1) The Commission has jurisdiction over the subject matter of, and Parties to, this proceeding.

160 (2) PSE is an electric company and a public service company subject to Commission jurisdiction.

161 (3) PSE bears the burden to demonstrate that its provisional rates subject to refund are fair, just, reasonable, and sufficient. The Commission's determination of whether the Company has carried its burden is adjudged based on the full evidentiary record.

162 (4) PSE has not demonstrated that the rates allowed to go into effect January 1, 2025, subject to refund, are fair, just, reasonable, and sufficient.

163 (5) Colstrip Units 3 and 4 are coal-fired resources as that term is defined in RCW 19.405.020(7)(a).

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[312] Appendix A (Confidential) shall be provided to PSE and parties that have signed the protective order agreement and shall be posted to the docket.

164 (6) After a careful analysis of the canons of Legislative intent, we find that the Legislature intended for a broad definition of the terms "retired" and "retirement" in RCW 19.405.030(3), which includes the accounting definition.

165 (7) We adopt the Generally Accepted Accounting Principles and Washington State Auditor's definitions of the terms "retired" and "retirement" in the application of RCW 19.405.030(3) in this docket.

166 (8) The provisions of CETA apply to the proceedings in this docket because we find that the Company will have retired Colstrip Units 3 and 4 pursuant to RCW 19.405.030(3) by 12:00 a.m. January 1, 2026.

167 (9) The A&A Agreement between PSE and NorthWestern is not subject to Commission approval under RCW 80.12.020 because, pursuant to RCW 19.405.030(1)(a)'s requirement that coal-fired resources be removed from PSE's allocation of electricity on or before December 31, 2025, Colstrip Units 3 and 4 cannot provide any benefit to PSE's Washington customers.

168 (10) The Commission should reject the request to have PSE file the A&A Agreement for Commission approval pursuant to RCW 80.12.020.

169 (11) The Commission should require PSE, as a condition of this order, to comply with the condition for review of future agreements transferring assets for the purpose of complying with a requirement of CETA, as described in paragraph 55.

170 (12) The six human health and safety investments in Colstrip are fully used and useful. The six projects are: (1) Switchgear modification; (2) the U4 Boiler Snubber rebuild; (3) the Coal Pipe Replacement; (4) the U4 Hot Reheat Elbow Replacement; (5) the U4 Boiler Scaffolding; and (6) the U4 Boiler Elevator.

171 (13) PSE has not demonstrated that its remaining capital investments in Colstrip are used and useful for service in Washington after December 31, 2025.

172 (14) The Commission should disallow a prorated portion of the Colstrip capital investments based on the portion of the investment's useful lives in service prior to December 31, 2025.

173 (15) PSE should be required to file an update to this docket detailing when the U4 Generator Exciter and the Northern Cheyenne AAQ System were placed into

service, including supporting documentation. If either asset was placed into service prior to December 31, 2025, PSE should be allowed to recovery a prorated portion of the costs associated with those investments, consistent with the proration methodology described in paragraph 95.

174 (16) PSE has not demonstrated that its investments in four projects that lack capital justification were prudent. Those four projects are: (1) Boiler Feed Pump Rebuild-Element; (2) PA Fan Motor Rewind/Refurb; (3) Boiler Feed Booster Pump RB; and (4) Motor Circ Wtr Pump Cap Spare.

175 (17) The TOFA component of the NOx control system is a SmartBurn component that was previously disallowed in PSE's 2019 GRC and therefore is imprudent.

176 (18) PSE's remaining investments and costs related to Colstrip that are not disallowed as not used and useful are prudent.

177 (19) PSE should be required to refund over-collected revenue through Schedule 141COL starting Jan. 1, 2026, consistent with Staff's recommended process as described in Exh. CRM-1T at 39:1 – 40:8.

178 (20) PSE should be required to file its final regulatory account for all Colstrip costs as of December 31, 2025, as part of its Schedule 141COL annual filing on or before September 30, 2026, consistent with the guidance in this Order. As part of such filing, other interested parties shall have the ability to review and contest PSE's investments.

ORDER

THE COMMISSION ORDERS:

179 (1) Puget Sound Energy's tariff revisions filed on September 30, 2024, further revised on December 20, 2024, and allowed to go provisionally into effect on January 1, 2025, by prior Commission order, are rejected and subject to refund with respect to the over-collected amounts.

180 (2) Puget Sound Energy is authorized and required to make compliance filings in this docket including all tariff sheets that are necessary and sufficient to effectuate the terms of this Order. PSE should file its compliance tariffs with an effective date of January 1, 2026, on or before December 24, 2025.

181 (3) As a condition of this order, Puget Sound Energy is required to comply with the condition for review of future agreements transferring assets for the purpose of complying with a requirement of CETA, as described in paragraph 55.

182 (4) As a condition of compliance with this order, Puget Sound Energy is required to submit an update to this docket indicating when the U4 Generator Exciter and the Northern Cheyenne AAQ System were placed into service, with supporting documentation, and the record should be reopened for the limited purpose of incorporating this information. If the assets were placed into service prior to December 31, 2025, Puget Sound Energy is authorized to recover a prorated portion of the value of those assets, consistent with the methodology described in paragraph 95.

183 (5) Puget Sound Energy is required to refund over-collection amounts consistent with the methodology described by Staff in Exh. CRM-1T at 39:1 – 40:8.

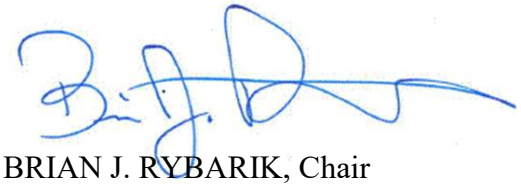
184 (6) Puget Sound Energy is required to file its final regulatory account for all Colstrip costs as of December 31, 2025, as part of its Schedule 141COL annual filing on or before September 30, 2026, consistent with the guidance in this Order. As part of such filing, other interested parties shall have the ability to review and contest PSE's investments.

185 (7) The Commission Secretary is authorized to accept by letter, with copies to all Parties to this proceeding, filings that comply with the requirements of this Order.

186 (8) The Commission retains jurisdiction to effectuate the terms of this Order.

Dated at Lacey, Washington, and effective December 19, 2025.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



BRIAN J. RYBARIK, Chair

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.