Proposal for recovery of future electric CCA allowance costs

Per Commission Order 01 in Docket UE-250321

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PUGET SOUND ENERGY

Safety Moment: Back-to-School Season

- As students return to classrooms across the state, expect significant changes in traffic patterns, pedestrian activity, and community dynamics around school zones.

- Key Safety Reminders:
  - Expect heavier traffic during morning (7-9 AM) and afternoon (2:30-4 PM) hours
  - School zones will have reduced speed limits and increased enforcement
  - Watch for children walking, biking, or waiting at bus stops
  - Stop for busses loading or unloading students
  - Drop off or pick up in designated areas
  - Watch for children around parked cars
  - Be extra cautious when backing vehicles near schools
  - Watch for warning signs and signals

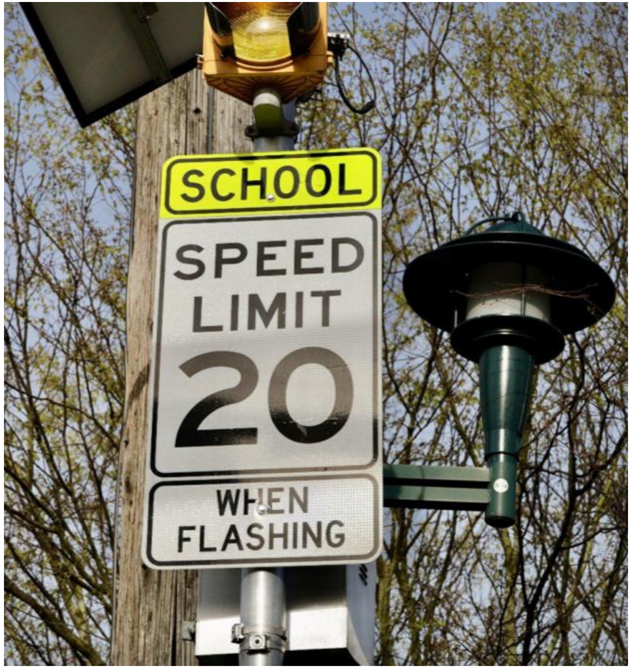

Photo source: New school zone safety cameras coming next school year, doubling the current count in Seattle - SDOT Blog (June 25, 2025)

Commission Order 01 in Docket UE-250321

- Allows PSE to recover estimated allowance costs associated with 2023, 2024, and part of 2025 Climate Commitment Act (CCA) electric obligation
  - About 60% of original 2025 estimate allowed ($52M out of $93M estimate), recovery for the remainder is TBD
  - All subject to refund and prudency determination at end of first compliance period

- PSE to work with parties to identify **amendment to power cost adjustment (PCA) mechanism that allows PSE to retain the CCA compliance cost** portion of revenue collected from wholesale power market sales
  - Use revenue to cover allowance obligation instead of first crediting to customers in PCA and then asking for it back in a separate tariff
  - Amendment to be reflected in the Oct. 1, 2025 power cost update filing for inclusion in rates Jan. 1, 2026
  - Must file update with Commission Sep. 2, 2025 reporting progress working with parties

- PSE filed motion for clarification on 8/4 regarding language in the order

Compliance: PSE’s Proposal

- **Include electric CCA allowance purchase costs in PCA variable costs**
  - Forecasted allowance costs added to baseline rate
  - Actual allowance costs moved from deferral to PCA actuals
  - Variance between forecast and actual netted with other PCA variances and shared with customers according to existing sharing bands

- **Proposal:**
  - Aligns recovery of wholesale market sales revenue with recovery of allowance costs incurred in connection with those sales
  - Shares CCA allowance cost risk based on same principles as existing PCA (actual vs forecast with established sharing bands)

Proposal addresses concerns expressed by parties

From Staff memo (July 24, 2025) p. 4:

- "Commission Staff (Staff) and interested parties have all noted that PSE's approach to recover direct CCA costs via a separate tracker, lacking a cost or risk sharing component, results in a mispatch between the treatment of PSE's revenues and these costs, both of which are directly tied to wholesale sales volumes and the prudence of dispatch decisions. Excluding these costs from the PCA results in profits that don't actually exist being returned to customers and the Company.

From Public Counsel comments (June 20, 2025) p. 2:

- "The Company's proposal inequitably passes 100 percent of CCA allowance purchase costs incurred from wholesale energy sales onto ratepayers in this tariff, while the benefits of these same sales are passed through the sharing bands in the PCA."

From AWEC comments (June 21, 2025) p. 2:

- "PSE's mechanism inequitably allows PSE to recover 100 percent of allowance costs outside of its PCA, when benefits associated with these costs are subject to PCA sharing and deadbands."

From The Energy Project comments (July 18, 2025) p. 1:

- "The lack of a risk sharing mechanism can result in a mismatch between the treatment of revenues and costs associated with a wholesale energy transaction. Such a mismatch will occur when revenues from a wholesale transaction pass through a Power Cost Adjustment RSM or Purchase Gas Adjustment RSM, and through a tracker shareholders are guaranteed recovery of CCA compliance costs associated with the same transaction. PSE's proposed CCA electric tariff includes this mismatch. PSE proposes that customers shoulder all costs of CCA compliance for wholesale transactions, while shareholders receive a portion of revenues from those same transactions through the Power Cost Adjustment RSM.[1]"

Source: Docket UE-250321
[1]Puget Sound Energy, Cover Letter, Advice No. 2025-27, at 2 (May 2, 2025).

Including the CCA costs in the PCA baseline rate will align the revenues and costs from wholesale sales

Example PCA baseline rate		
	Status quo	*Proposed*
Fuel	$500	$500
Purchased power	$1,000	$1,000
Secondary sales	($500)	($500)
Transmission	$100	$100
CCA allowance cost	**$0**	**$50**
Total forecasted PCA expense	$1,100	$1,150
Forecasted delivered load (GWh)	20,000	20,000
PCA variable baseline rate	**$55.00**	**$57.50**

Forecasted total emissions:
5,000,000 metric tons
No cost allocation:
4,000,000 metric tons
Net obligation:
1,000,000 metric tons
Allowance price: **$50**

- Proposal requires forecast of PSE emissions and CCA allowance price for inclusion in PCA baseline rate.
- Proposal will increase PCA variable baseline rate.
- Risk of variance between actual and forecast is shared according to PCA sharing bands.

Considerations leading to proposal:

- Recent Commission order
  - Concerns about mismatch between recovery of CCA costs and recovery of related fuel and wholesale sales, need for separate tracker (Sch. 111E) and approvals/reviews, Commission order
- Adjustment to net PCA actuals without change to forecast (baseline rate) automatically disallows portion of net costs
  - Would not provide opportunity to recover prudent CCA allowance costs (recovery effectively capped at customer share of PCA imbalance)
- Ecology allocation of no-cost allowances for retail load vs wholesale sales is based on forecast, not actual data
  - Does not appear that annual adjustment (if at all) would account for actual emissions to serve retail load
- Real-time tracking of allowance price used in dispatch and revenue to cover CCA obligation is complex, data intensive, and potentially subjective
  - Dispatch decisions are based on more than just wholesale price at a point in time (plant start-up and min load, reserve requirements, transmission constraints, etc.)
  - Latest rulemaking information from Ecology influences PSE's thinking that CCA costs could be included in all dispatch decisions, not just for wholesale sales

Why doesn’t PSE already include allowance costs in PCA?

- Decision to exclude CCA allowance costs from PCA and defer for future collection was largely due to uncertainty surrounding electric no-cost allowance allocations and, in particular, Ecology’s adjustment or “true-up” rules
  - In 2024 GRC Staff proposed inclusion, PSE said there is still too much uncertainty*, Commission ordered PSE not to include it in last GRC order

- While Ecology has still not finalized guidance regarding their electric allowance adjustment process, they are expected to do so by October 2025, and their intentions are relatively clear: **Ecology does not intend to adjust a utility’s electric no-cost allowance allocation based on actual reported emissions**
  - They did not issue adjustments for 2023 and stated they don’t expect to for 2024
  - Draft guidance from April 2025 and a refined version from July 2025 states that adjustments will not be made based on anything within a utility’s operational control

**see Exh. BDM-23CT at 33:5 – 34:5 in Docket UE-240004*

Recent clarity from Ecology on "true-up" is also leading to changes in optimal dispatch strategy

Assuming there is no allowance adjustment ("true up") based on actual emissions, cost minimizing strategy includes CCA cost in dispatch cost for all resources (not just those deemed surplus to load)*

- Ecology's recent draft guidance regarding WAC 173-446-230(2)(g) indicates:
  - Utility can keep (and monetize for benefit of customers) no-cost allowances that are surplus to compliance obligation
  - A utility will not be penalized for operational decisions that reduce reported emissions relative to forecast

- PSE's previous interpretation of the Ecology rules regarding "true-up" of no-cost allowance allocation indicated that CCA should be included in dispatch only for wholesale sales, but new guidance appears to supersede this language:

> (g) The initial allocation of allowances will be adjusted as necessary to account for any differential between the applicable reported greenhouse gas emissions for the prior years for which reporting data are available and verified in accordance with chapter 173-441 WAC and the number of allowances that were allocated for the prior year through this process.

*see discussion in Docket UE-240004 Exh. JDW-1T pages 16-20 and 23-26 and Exh. BDM-23CT pages 24-32

Proposal for remaining 2025 CCA electric costs

- Any true-up for actual 2023, 2024, and full year 2025 costs would be included a future electric Sch. 111 filing

Appendix

"True-up" WAC language:

Allocation adjustments: Updated draft (July 2025)

Ecology is developing guidance related to WAC 173-446-230(2)(g). We are considering adopting the following guidelines:

Ecology will not seek adjustments related to

- *Market-optimization behavior resulting in lower covered emissions or cost burden relative to forecasts based on best estimates of retail supply at the time*
- *Additional or overachievement of decarbonization or efficiency efforts relative to forecasts based on best estimates of retail load or supply at the time*

Ecology may consider adjustments related to

- *Misrepresentation of forecast load or retail supply that was not reflective of best estimates at the time*
- *Divergence from forecast retail load of over 15%, resulting in cumulative allocation significantly diverging from cost burden*
- *Per request of utilities*

Source: WA Department of Ecology, Cap-and-Invest Electric utility allocation workshop July 22, 2025, Cap-and-Invest: No-cost allowance allocation for electric utilities, slide 50.

Actual text of Commission Order 01 Docket UE-250321

(a) First, we limit PSE's recovery of costs for 2025 under Schedule 111 to those associated emissions through July 24, 2025, but do not approve recovery of costs for the remainder of 2025, which are more speculative.

(b) Second, any revenues collected consistent with this order shall be collected subject to refund and later prudency determination at the end of the first four-year CCA compliance period.

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

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