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REDACTED VERSION

**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| In the Matter of the Petition of<br><br>PUGET SOUND ENERGY<br><br>For an Order Authorizing Deferred Accounting Treatment of PSE's Costs for a Tolling Agreement with Grays Harbor Energy Center | )<br>)<br>)<br>)<br>)<br>)<br>) | Docket UE-24______________<br><br>PETITION OF PUGET SOUND ENERGY |

## I. INTRODUCTION

1. In accordance with WAC 480-07-370 (3), PSE Sound Energy ("PSE" or "the Company") respectfully petitions the Washington Utilities and Transportation Commission ("Commission") for an order that authorizes the deferred accounting and ratemaking treatment related to the costs the Company will incur associated with a tolling agreement.

2. Statutes and rules at issue in this Amended Petition include RCW 80.01.040, RCW 80.28.020, WAC 480-100-203 and WAC 480-07-370 (3).

3. PSE is a combined gas and electric utility that provides service to approximately 1,200,000 electric customers and 878,000 natural gas customers in Western Washington.

4. All correspondence related to this Petition should be directed as follows:


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## II. SUMMARY OF PETITION

5. PSE requests the Commission approve accounting treatment that would allow the Company to defer, for later consideration, the net costs associated with a tolling agreement with Grays Harbor Energy Center ("GHEC"). The tolling agreement will provide reliable capacity allowing the Company to make progress towards established integrated resource planning ("IRP") capacity needs.

6. This Petition does not request prudency for or the right to recover the contract costs requested to be deferred. Instead, PSE will make such requests in a future proceeding at which time the Commission will have before it a full record to make its determination.

## III. BACKGROUND AND JUSTIFICATION FOR DEFERRAL

7. The GHEC is a 648 MW gas-fired combined cycle facility located near Elma, WA. GHEC is owned and operated by Invenergy LLC.

[redacted] Based on PSE's 2023 Energy Progress Report, PSE's capacity deficit is projected to grow from 1000 MW in 2025 to over 2000 MW in 2027. The tolling agreement with GHEC will give PSE access to a dispatchable resource to help meet PSE's mid-term capacity needs. Under the terms of the agreement, PSE will have sole ability to dispatch up to 100% of the plant. The GHEC toll includes [redacted]

9. PSE will use its existing firm gas transportation capacity to supply fuel to GHEC.

10. The tolling agreement is for a duration of three years, from January 1, 2025 – December 31, 2027 with an optional extension through March 31, 2030.

11. The tolling agreement is equity neutral, benefitting all customers, with expected lower emissions

and social costs of carbon than unspecified energy purchases.

12. The tolling agreement with GHEC was executed in early November, 2024 with delivery expected to start on January 1, 2025.

13. Based on the final contract terms, after netting with the projected market power offset which is approximately [redacted], PSE estimates this agreement would increase its forecasted power costs by approximately [redacted] in 2025.

14. Given the magnitude of this cost, the granting of this petition is critical to maintaining PSE's near-term financial health, including its credit health, by providing a pathway for cost recovery of the deferred amount. Conversely, recognizing this amount as an immediate expense without having a pathway to recovery in place would erode PSE's key financial metrics and degrade PSE's credit metrics performance. This profile could lead to higher borrowing costs, and thus impair PSE's ability to finance ongoing investments right at a time when PSE's financing needs to support its system safety, reliability and the Clean Energy Transformation Act ("CETA") are increasing.

In the past, PSE has consistently raised and discussed the importance of credit rating and financial health, most recently in its pending general rate case under Docket Nos. UE-240004, et al. and in PSE's 2024 annual PCA compliance filing in witness Cara G. Peterman's Prefiled Direct Testimony in Docket UE-240288. Depending on the outcome of pending cases, expensing these costs instead of deferring them [redacted].

15. Finally, approval of the deferral is needed to ensure the above-mentioned costs are preserved

until PSE's rates can be updated to include these costs, at which time the deferral would cease and allow PSE the opportunity to seek recovery of the deferred costs at a later date.

## IV. PROPOSED ACCOUNTING TREATMENT

16. The Company requests to defer the net tolling agreement costs until PSE's rates can be updated to include these costs. The Company also requests to defer and recover interest on the deferred costs.

17. The net costs include 1) the deferral of the monthly capacity and transmission payments per the contract, 2) the dispatch costs including gas, variable O&M, and start-up costs that PSE is required to pay under the tolling agreement and 3) an offset to the deferral for the value of the market purchases built into current rates as these purchases are assumed to be offset by the power generated at GHEC ("market power offset"). Further, if the Commission orders PSE to include estimated Climate Commitment Act ("CCA") allowance costs in the final power costs established in PSE's 2024 GRC then PSE would also defer any CCA allowance costs attributable to GHEC.[1]

18. For deferral of the contract costs, the Company requests to defer the monthly charge under the tolling agreement as a Credit to FERC 555 purchased power costs. PSE requests the other side of this entry be a Debit in Account 186 – Other Deferred Debits. At the time PSE will request

[1] Commission Staff recommends inclusion of estimated CCA allowance costs in PSE's forecasted power costs used to establish the PCA baseline rate. See Staff witness John D. Wilson, Exh. JDW-1T 5:19 through 6:2 and/or Staff's post-hearing brief @ paragraphs 96-97. PSE, AWEC, and Public Counsel disagree with Staff's recommendation and propose that any electric CCA allowance costs continue to be deferred according to PSE's accounting petition approved in Docket UE-220974. See Exh. BDM-23CT @ 33:5 through 34:5, AWEC post-hearing brief @ paragraphs 71-74 and Public Counsel post-hearing brief @ paragraphs 84-86. Remaining uncertainty in Department of Ecology's rules regarding the allocation of no-cost allowances currently makes it impossible to forecast PSE's ultimate electric CCA obligation with a reasonable level of confidence.

recovery of the deferral, PSE will request that it be amortized to FERC 555. The above entry, including the eventual amortization if granted, would be included in PSE's PCA imbalance calculation. In the event recovery of the deferral is not granted, the entries to reverse the deferral will also be included in PSE's PCA imbalance calculations.

19. For deferral of the fuel costs, the Company requests to defer the fuel costs as a Credit to FERC 547 Fuel. The cost of the fuel will be determined based on the incremental cost of gas in PSE's gas-for-power portfolio. PSE requests the other side to this entry be a Debit in Account 186 – Other Deferred Debits. At the time PSE will request recovery of the deferral, PSE will request that it be amortized to FERC 547. This entry, including the eventual amortization if granted, would be included in PSE's PCA imbalance calculation. In the event recovery of the deferral is not granted, the entries to reverse the deferral will also be included in PSE's PCA imbalance calculations.

20. The Company requests to defer the market power offset as a Debit to FERC 555 Purchased Power for the Market Energy Offset. PSE requests the other side to this entry net with the two above amounts against the Debit in Account 186 – Other Deferred Debits. At the time PSE will request recovery of the deferral, PSE will request that it be amortized to FERC 555. Should the net position be a credit balance, PSE will record it to Account 253 – Other Deferred Credits. This entry, including the eventual amortization if granted, would be included in PSE's PCA imbalance calculation. In the event recovery of the deferral is not granted, the entries to reverse the deferral will also be included in PSE's PCA imbalance calculations.

21. The Company requests to defer interest on the deferred costs net of the market power offset as

a Debit or Credit in Account 186 – Other Deferred Debits or 253 – Other Deferred Credits. A Debit or Credit will be recorded to FERC 419 Interest and Dividend Income for the deferred interest. The interest will be calculated using the FERC interest rate[2] which is the same interest rate allowed on PSE's PCA deferrals. At the time PSE will request recovery of interest deferral, PSE will request that it be amortized to FERC 419.

22. The length of the deferral period, the amortization of the recovery of deferred costs and interest, and the timing of inclusion of the GHEC tolling agreement in rates is dependent on the timing of the prudency review, discussed in the next section.

## V. TIMELINES OF PRUDENCE AND DEFERRAL RECOVERY

23. There are several options available for when the Commission could determine a) prudency, b) the length of the deferral period before the GHEC tolling agreement is included PSE's Schedule 95 Power Costs, and c) a determination of when and how the deferred costs would be recovered.

24. In PSE's pending general rate case under Docket UE-240004, PSE provided notice of its intent to enter into this agreement on page 23 of the Confidential Prefiled Rebuttal Testimony of Brennan D. Mueller, Exh. BDM-23CT. Also in PSE's pending rate case, PSE is proposing a method for timely recovery of the multitude of new contracts that are needed to meet PSE's CETA and capacity needs. In Mr. Mueller's testimony, it was communicated that PSE would include this contract as part of its proposed power cost update[3] ("GRC proposal"). This

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[2] https://www.ferc.gov/interest-calculation-rates-and-methodology

[3] *WUTC v. Puget Sound Energy,* Dockets UE-240004, et al., Exh. BDM-23CT, page 24, lines 8-11. "PSE would include this new resource in an update to its power cost forecast at the end of this proceeding, assuming it is finalized at that time. PSE would then seek a prudence determination at the next available opportunity, likely in its April 2025 PCA annual filing.". See also the description of PSE's proposed annual power cost update process starting at page 42 in Exh. BDM-1CT.

petition is necessary as it will not be known whether the Commission will approve PSE's GRC proposal to include this contract in rates in 2025 until after the contract starts. The Commission has indicated PSE's final order is due no later than January 15, 2025 after the GHEC contract start date of January 1, 2025. Therefore, four potential scenarios exist as it relates to this request for deferred accounting:

1. The Commission could allow the contract to be included in rates as proposed in 2025 as a part of PSE's compliance filing in its pending rate case. Under PSE's GRC proposal, the prudence of the contract and recovery of the deferral would then be presented in PSE's annual PCA compliance filing; a five-month proceeding that is to be filed in April 2025. PSE's GRC proposal also provides that parties could also request to postpone the prudence determination until the next general rate case. *This option would provide for the shortest length of deferral, totaling roughly two to four weeks, while also preserving credit metric health PSE seeks to achieve in its GRC as cost recovery would most closely match the contracted expense*

2. If the Commission grants PSE's GRC proposal for annual power cost updates, but does not allow the inclusion of this contract in rates in 2025, then PSE would have to wait until January 1, 2026 to include the contract in rates and the deferral period would last approximately one year. The prudence of the contract could still be determined in the April 2025 Annual PCA Compliance Filing.

3. If the Commission were to reject PSE's GRC proposal for annual power cost updates altogether, then PSE would likely include variable power costs in a power cost only rate case ("PCORC") to be filed sometime in the first half of 2025 and PSE would

request recovery of the ongoing contract costs, the deferred costs and prudence in the PCORC. In this scenario, the deferral would also last approximately one year.

4. If a PCORC is not filed, then the final opportunity to request recovery of the contract, deferral and prudence would be in PSE's next general rate case, with rates starting sometime in early 2027. In this case, the deferral would last approximately two years.

25. PSE believes the preferred scenario is the first scenario as it limits the length of the deferral while also allowing parties to perform their prudence review of the contract in an existing proceeding (the Annual Compliance Filing) with the ability for the Commission to approve or revise PSE's PCA deferrals depending on the outcome of their decision on the prudence of the contract and recoverability of the deferrals.

## VI. REQUEST FOR RELIEF

26. For the reasons discussed above, PSE respectfully requests the Commission issue an Order approving the deferred accounting and a determination of when prudency and recovery of deferred costs could be established as set forth in this Petition.

DATED this 31st day of December, 2024.

**Puget Sound Energy**

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