

Proposal for recovery of future electric CCA allowance costs in PCA

Per Commission Order 01 in Docket UE-250321

Second Meeting with Interested Parties
September 15, 2025 (Monday), 4-5pm



PUGET
SOUND
ENERGY

Safety Moment: Mental Health



◆ September is National Suicide Prevention Month.

- ◇ Mental health is a critical component of overall safety, as stress and other issues can impact focus, judgment, and overall well-being, potentially increasing the risk of accidents and injuries
- ◇ Many of us are often reminded to spot, avoid, and report physical risks, but mental distress can be an invisible hazard that affects our safety, focus, and judgment. Discussing mental health concerns should be as normal as discussing a physical injury.

◆ Creating a supportive environment where people can talk openly reduces stigma and helps create a safer workplace for everyone.

- ◆ Confidential support resources available, such as your company's Employee Assistance Program (EAP) or the national **988 Suicide & Crisis Lifeline**.

PSE's Proposal **for 2026** re CCA in PCA

The logo for PSE (Public Service Enterprise Group) is located in the top right corner. It consists of a teal diamond shape with the letters "PSE" in white, set against a background of red and teal geometric shapes.

◆ **Proposal: Include all electric CCA allowance purchase costs in PCA variable costs**

- ◇ Forecasted allowance costs moved into the PCA sharing mechanism
- ◇ Value of no-cost allowances passed back to customers through Sch. 111-E
 - No-cost allowances needed for emissions are transferred to PCA at market price
 - Any additional allowances are purchased at market price with costs flowing through the PCA
 - Any surplus of no-cost allowances remaining in inventory may be used for future compliance needs or can be consigned for the benefit of customers with revenues passed back through Sch. 111-E
- ◇ Variance between forecast and actual CCA allowance costs netted with other PCA variances and shared with customers according to existing sharing bands

◆ **Benefits of the proposal:**

- ◇ Aligns recovery of wholesale market sales revenue with recovery of allowance costs incurred in connection with those sales
- ◇ Allows for one-to-one pass back of no-cost allowance value to customers
- ◇ Maintains cost risk on variance of forecast to actuals in the PCA based on existing principles (actual vs forecast with established sharing bands)

Schematic illustration of the proposal:

PSE

PSE's existing approach

PCA Costs

Natural gas fuel
Purchased power
Secondary sales

Transmission
Other revenues/costs

Total variable PCA Expense

Forecasted delivered load (MWh)
PCA variable baseline rate (\$/MWh)

Schedule 111-E

Rates increase for forecasted costs
of CCA electric purchases

Mismatch between wholesale sales proceeds running
through the PCA baseline rate and 100% costs of carbon
running through Sch. 111-E

PSE's Proposal

PCA Costs

Natural gas fuel
Purchased power
Secondary sales

ADD: CCA electric allowance costs

Transmission
Other revenues/costs

Total variable PCA Expense

Forecasted delivered load (MWh)
PCA variable baseline rate (\$/MWh)

Schedule 111-E

Pass back market value of no-cost
allowances in credits

Notes

Adding forecasted electric allowances
matches wholesale sales revenues with
costs of carbon

Adding forecasted electric allowances
increases the PCA baseline rate

PSE passes back the market value of
no-cost allowances to customers as
credits in Sch. 111-E. This market value
of no-cost allowances is included in the
PCA forecast as a cost.
Variances in actual market cost of
carbon (higher/lower than forecast)
flow through the PCA baseline rate.

Illustrative numerical example of the proposal:

PSE

	Existing Approach	Proposed Approach for 2026		
	Expected portfolio emissions	Customers are credited for value of no-cost allowances used for compliance	Value of surplus no-cost allowances at year-end	Cost of carbon to cover compliance obligation forecasted in PCA
<i>Emissions forecast for baseline rate (CCA included in all dispatch)</i>				
Total portfolio emissions (metric tons):	4,557,113	0	0	4,557,113
No-cost allowance allocation (metric tons):	5,346,202	4,557,113	789,089	0
Net allowance obligation (metric tons):	(789,089)	(4,557,113)	(789,089)	4,557,113
CCA price used in forecast dispatch (for wholesale sales):	\$58.00	\$58.00	\$58.00	\$58.00
Cost of allowance purchases:	(\$45,767,184)	(\$264,312,556)	(\$45,767,184)	\$264,312,556
	Sch. 111-E	Sch. 111-E	TBD	PCA

Questions from UTC Staff

(sent by Crystal Oliver on 9/4/2025)

The logo for PSE (Pacific States Energy) is located in the top right corner. It consists of a teal diamond shape with the letters "PSE" in white, set against a background of red and teal geometric shapes.

- ◆ How PSE proposes to recover costs for the remainder of 2025?
- ◆ To determine the proforma year's emissions, what input data set will the Aurora model use?
- ◆ Has the company analyzed the emission obligation for each emitting resource?
- ◆ Can PSE present a comparison of power cost including CCA cost in retail dispatch vs not including those cost in retail dispatch?
- ◆ Would including CCA costs in retail dispatch decisions result in PSE going to the market for purchase rather than dispatching its own resources?
- ◆ Can PSE provide a comparison of 2026 power cost including CCA costs & not-including CCA costs?
- ◆ How will allowance costs be incorporated into the annual PCA filing?
 - ◇ How will PSE approach allowance instrument obligation vs allowance instruments that have been acquired and allowance instruments that have not yet been acquired?
 - ◇ How will differences between estimated allowance costs vs actuals be addressed?
- ◆ Would the prudence of CCA costs included in the annual PCA filing be determined at that time or would prudence be determined at the end of the four-year CCA compliance period?
 - ◇ Would a threshold prudence determination be made annually?

Questions from Public Counsel

(sent by Tad Robinson O'Neill on 9/5/2025)
(slide 1/6)

The logo for PSE (Public Service Enterprise Group) is located in the top right corner. It consists of a teal diamond shape with the letters "PSE" in white, set against a background of red and teal geometric shapes.

Re: Order 01

- ◆ Order 01 states that PSE shall “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.”
 1. How does PSE’s proposal to include “forecasted allowance costs” in the “baseline rate” (slide 4 of 8/27/2025 presentation) achieve the language of Order 01 to remove CCA costs from the PCA mechanism?
 2. Orally, PSE stated that, on a forecast basis, removing the revenue as stated in Order 01 and adding a cost as the Company proposes does not change the outcome. Public Counsel would appreciate further explanation on the Company’s thinking on this. Please provide a numerical example for clarity, if possible.

Questions from Public Counsel

(sent by Tad Robinson O'Neill on 9/5/2025)
(slide 2/6)



PSE

Re: Forecasted total emissions (as referenced on slide 6)

3. Please provide details on which forecast PSE proposes to use for “forecasted total emissions.” Does this align with the ISP/CEIP modeling, the no-cost allowance forecast sent to Ecology, or some other modeling?
4. Does PSE plan to update the forecasted total emissions annually?
5. Please provide information on the historical accuracy total emissions forecasting.
6. What are the current forecast total emissions for 2025?
 - a) How does the Grays Harbor contract pending prudence review in the current PCA affect total forecasted emissions?

Questions from Public Counsel

(sent by Tad Robinson O'Neill on 9/5/2025)
(slide 3/6)

The logo for PSE (Public Service Enterprise Group) is located in the top right corner. It consists of a teal diamond shape with the letters "PSE" in white, set against a background of red and teal geometric shapes.

Re: No-cost allocation (as referenced on slide 6)

7. How is PSE planning to incorporate Ecology's decision-making on the 2025 no-cost allowance forecast petition into its next filing for this tariff?
 - ◇ In particular, how would a decision from Ecology to not grant additional no-cost allowances change PSE's proposed recovery for 2025?
8. Moving forward, what is PSE's plan regarding the timing of filing the PCA and forecasting CCA allowance costs with the timing of Ecology's distribution of no-cost allowances?
9. How is PSE planning for the uncertainty of legal challenges to the CCA or potential changes to Ecology's rules?

Questions from Public Counsel

(sent by Tad Robinson O'Neill on 9/5/2025)
(slide 4/6)

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PSE

Re: allowance price forecasts (as referenced on slides 6-7)

10. Please provide the alternative methods PSE has considered for forecasting prices and the risks and benefits of each.
11. What data does PSE have about the accuracy of these methods in predicting future allowance costs?
 - a) If PSE does not have any information about accuracy, how many years of data does the Company expect to need in order to be confident in the CCA allowance price forecasts?
12. How will the Company account for actual allowance purchase prices for an annual PCA mechanism when allowances are not immediately purchased, given the four-year compliance period for the CCA?
13. How would any potential risk-sharing mechanism developed in Docket U-230161 interact with an embedded allowance price forecast in PCA baseline rates?

Questions from Public Counsel

(sent by Tad Robinson O'Neill on 9/5/2025)
(slide 5/6)

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Re: Real-time tracking of allowance price used in dispatch (Slide 7, fourth bullet point.)

14. Please confirm that the Company already calculates and uses a forecast CCA price for dispatch decisions for surplus load.
15. Please explain why the Company cannot place a hold on the revenue equivalent to the CCA price used in dispatch decision-making for each transaction?

Re: “Adjustment to net PCA actuals without change to forecast (baseline rate) automatically disallows portion of net costs” (Slide 7, second bullet point.)

16. Please confirm that the Company believes that placing a hold on the revenue equivalent to the CCA price used in dispatch, without changing baseline, would “automatically disallow a portion of net costs.”
 - a) If not, please explain the methodology used to make an “adjustment to net PCA actuals.”
17. What portion of net costs would be lost by an adjustment to net PCA actuals? Please provide numerical examples.

Questions from Public Counsel

(sent by Tad Robinson O'Neill on 9/5/2025)
(slide 6/6)

The logo for PSE (Public Service Enterprise) is located in the top right corner. It consists of a dark teal diamond shape with the letters "PSE" in white, serif font. To the left of the diamond is a red triangle pointing right, and to the right is a teal triangle pointing left.

Re: Collection of the remaining 40 percent of CCA costs for 2025.

18. Orally in the presentation, PSE indicated that the presented proposal would apply starting in 2026. Please describe PSE's proposal to collect the remaining approximately 40 percent of CCA costs for the remainder of 2025

Re: "Latest rulemaking information from Ecology influences PSE's thinking that CCA costs could be included in all dispatch decisions, not just for wholesale sales" (Slide 7).

19. Does this indicate that PSE plans to begin using CCA in all dispatch decisions, not just for wholesale sales?
- a) If so, when does PSE plan to begin including CCA in all dispatch decisions?
20. Please provide details on how PSE plans to account for its no-cost allowance allocation in the scenario that the Company includes CCA in dispatch for more than just wholesale sales.

Expected timeline of upcoming filings

The logo for PSE (Public Service Enterprise Group) is located in the top right corner. It consists of a teal diamond shape with the letters "PSE" in white, set against a background of red and teal geometric shapes.

◆ PCA:

- ◇ To be filed on 10/1/2025
- ◇ For rates effective: 1/1/2026; Recovery period: CY2026

◆ Sch. 111-E

- ◇ To be filed on 10/31/2025 to incorporate most current information from Ecology which will be published on 10/1/2025
- ◇ For rates effective: 1/1/2026; Recovery period: CY2026

◆ Accounting Petition to implement CCA – PCA proposal as needed

- ◇ To be filed on 10/31/2025

◆ Petition to Amend 2013 PCA Settlement in UE-130617 to change how PCA works / accounting

- ◇ To be filed on 10/1/2025

◆ Petition to Amend Order 01 in UE-240004 *et al.* (which ordered PSE not to include CCA compliance costs into PCA)

- ◇ To be filed on 10/1/2025

Appendix

"True-up" WAC language:

The logo for PSE (Puget Sound Energy) is located in the top right corner. It consists of a teal diamond shape with the letters "PSE" in white, sans-serif font inside it. The diamond is partially overlaid by a red and white geometric shape.

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*

Commission Order 01 in Docket UE-250321

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- ◆ 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

- ◆ Requires 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 an update with the Commission on Sep. 2, 2025.

- ◆ With the Company's next PCA filing, requires PSE to include a proposal for recovery of costs for the remainder of 2025

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

Actual text of Commission Order 01 Docket UE-250321



PSE

- (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 prudence 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.