BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferred Accounting Treatment of PSE's Costs associated with the United States Tariffs on Energy Imports from Canada	))))))))	Docket UE-25______________ PETITION OF PUGET SOUND ENERGY

I. INTRODUCTION

1. In accordance with WAC 480-07-370 (3), Puget 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 the United States tariffs on electrical energy imported from Canada and natural gas imported from Canada for power generation or to serve PSE's natural gas customers ("Energy Tariffs").

2. Statutes and rules at issue in this Petition include RCW 80.01.040, RCW 80.28.020, WAC 480-90-203, 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:

Puget Sound Energy
Attn: Susan Free
Director of Revenue Requirements and Regulatory Compliance

P.O. Box 97034, BEL10W
Bellevue, WA 98009-9734
Telephone: (425) 456-2105

II. SUMMARY OF PETITION

5. PSE is requesting deferred accounting treatment for any increased costs associated with any tariff on electrical energy imported from Canada and natural gas imported from Canada for power generation or to serve PSE's natural gas customers starting with the effective date that the Energy Tariffs are charged. If Energy Tariffs are not eventually levied, nothing will be deferred under this petition. Even though uncertainty remains as discussed through this petition, PSE is filing now as current notifications continue to indicate the U.S. Tariffs began at 00:00 hours Eastern Standard Time on March 4, 2025.

6. The Company requests to defer the increased costs associated with the Energy Tariffs to a FERC 186, Miscellaneous Deferred Debit account, with the offsetting entry recorded to where the increased cost would have typically been recorded, as is more full explained below.

III. BACKGROUND AND JUSTIFICATION FOR DEFERRAL

7. PSE is an importer of natural gas and electrical energy from Canada. Natural gas imported from Canada is used by PSE to generate power and serve its core gas customers in Washington. On February 1, 2025, President Trump issued Executive Order No. 14193 directing the imposition of import tariffs on all articles that are products of Canada.[1] President Trump subsequently issued Executive Order No. 14197, which paused the

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[1] Exec. Order No. 14193, *Imposing Duties to Address the Flow of Illicit Drugs Across Our Northern Border*, § 2(a) (Feb. 1, 2025), available at https://www.govinfo.gov/content/pkg/FR-2025-02-07/pdf/2025-02406.pdf.

implementation of the import tariffs on Canada until March 4, 2025.[2] Executive Order No. 14193 and a preliminary Harmonized Tariff Schedule,[3] which was publicly released and then withdrawn,[4] did not include sufficient detail to confirm whether and, if so how, tariff rates would be applied to imports of electrical energy (e.g., electricity, voltage support, or capacity) generated in Canada. Executive Order No. 14193 was clear, however, that natural gas imported from Canada would be subject to a 10 percent import duty (Energy Tariff).

8. Executive Order No. 14193 addresses "energy and energy resources" to be subject to the 10 percent tariff with an incorporation by reference of a definition separately used in a third executive order –Executive Order No. 14156.[5] This definition is clear as it relates to core gas and gas for power. However, the referenced, underlying definition of "energy and energy resources" does not explicitly identify electrical energy as a component:

> The term "energy" or "energy resources" means crude oil, natural gas, lease condensates, natural gas liquids, refined petroleum products, uranium, coal, biofuels, geothermal heat, the kinetic movement of flowing water, and critical minerals, as defined by 30 U.S.C. 1606(a)(3).[6]

9. Further, under the Chapter 27 of the Harmonized Tariff Schedule of the United States, electrical energy is identified as a good, but has a "free" tariff designation[7] and is not

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[2] Exec. Order No. 14197, Progress on the Situation at Our Northern Border, § 3 (Feb. 3, 2025), available at https://www.govinfo.gov/content/pkg/FR-2025-02-10/pdf/2025-02478.pdf.
[3] See U.S. International Trade Commission, *Harmonized Tariff Schedule of the United States* (2025) Rev. 2 (Feb. 2025), available at https://hts.usitc.gov/.
[4] A draft notice implementing the tariff upon Canadian-origin products was made available in the Advanced Notice Section of the Federal Register on February 4, 2025, but withdrawn before publication.
[5] Exec. Order No. 14156, Declaring a National Energy Emergency (Jan. 20, 2025), available at https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02003.pdf.
[6] *Id*. at § 8(a).
[7] *See Harmonized Tariff Schedule of the United States*, ch. 27, at 27-18 (Heading 2716.00.00 "Electrical Energy").

subject to the border entry procedures through which Customs Duties are imposed.[8] Public statements from a representative of the U.S. International Trade Commission have suggested that—consistent with historical treatment of electrical energy as an intangible and the complexity of tracking and invoicing interchange of electrical energy across the U.S./Canada border—electrical energy generated in Canada and imported into the U.S. may be wholly exempt from the tariff.[9]

10. The exact details on how the Energy Tariffs will operate and whether or not they will apply to imports of electrical energy generated in Canada are not clear at this time. Additionally, if they are imposed, it is not clear to which FERC account they will be recorded which will determine under what recovery mechanism they will be included. These tariffs have the potential to have a significant impact on PSE's electric and natural gas supply operations. As such, these tariffs represent an extraordinary cost appropriate for deferral. Furthermore, related to electricity, these tariffs were not anticipated or foreseeable in the Company's most recent rate case which prevented PSE from including an estimate of these costs in rates, even though the benefit of the underlying power is being provided to customers today. Each time PSE sets its power cost baseline rate that is utilized in the accounting of its Power Cost Adjustment ("PCA") mechanism, costs and

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[8] *See id*. at 27-2, ¶ 6(b) ("Electrical energy shall not be subject to the entry requirements for imported merchandise set forth in section 484 of the Tariff Act of 1930, as amended, (19 U.S.C. 1484), but shall be entered on a periodic basis in accordance with regulations to be prescribed by the Secretary of the Treasury.")

[9] Jon Lamson & Robert Mullin, *Uncertainty Remains Around Energy Tariffs Amid Last-Minute Deals*, RTO Insider (Feb. 3, 2025) (reporting that "A representative of the U.S. International Trade Commission declined to comment on the executive order, but highlighted a provision in the Harmonized Tariff Schedule that states electricity 'shall not be subject to the entry requirements for imported merchandise set forth in section 484 of the Tariff Act of 1930.' They also linked a 2021 report by the ITC that noted "imports of electrical energy are not considered to be subject to the tariff laws of the United States.").

benefits are in balance which allows for the mechanism to operate as intended. When a material cost or benefit is not contemplated, a deferral petition such as this is warranted.

11. PSE will not be able to avoid the tariffs as it must continue to procure gas for electric generation and core gas customers from Canadian sources as the existing domestic pipeline infrastructure cannot transport sufficient volumes of natural gas from other markets to reliably meet PSE's electric customers' energy needs. In other words, it is unlikely that PSE could economically avoid the cost of tariffs via changes to how or where it sources natural gas for power generation and to serve core gas customers.

12. PSE also imports electrical energy from Canada according to fixed price contracts. PSE is contractually obligated to take delivery of electrical energy at the Canada-U.S. border under these agreements and would therefore not be able to avoid incurring a tariff obligation for these imports. As mentioned above, it is currently unclear whether the Energy Tariffs would apply to the importation of electrical energy generated in Canada. If the Energy Tariffs were to apply to imports of electrical energy generated in Canada, PSE could incur the costs applicable to the import duties associated with such Energy Tariffs for the importation of such electrical energy.

13. Related to its natural gas operations, approximately 85 percent of the gas supply for PSE's Local Distribution Company ("LDC") is imported from Canada. A 10 percent tariff will increase the cost of PSE's natural gas supply. For the balance of calendar year 2025 (March through December) based on preliminary, high level estimates utilizing the limited information known at this time, PSE expects tariffs will increase gas supply costs approximately $25 million. This is a preliminary estimate based on current best

understanding of how tariffs will be implemented. About 25 percent of the total 2025 cost impact, or $8 million, is attributable to the remainder of this heating season and the spring/summer storage refill season. The remaining $17 million estimated 2025 impact is attributable to next winter's heating season.

14. Related to its electricity operations, approximately 83 percent of the fuel consumed by PSE's natural gas-fired generators is imported from Canada. A 10 percent tariff will increase the cost of PSE's natural gas fuel supply – for the balance of calendar year 2025 (March through December) PSE expects tariffs will increase fuel supply costs for its electric portfolio by approximately $12 million. Should the 10 percent tariffs also apply to electricity imports, PSE expects an additional increase of approximately $13 million due to tariffs on its electricity imports. These are preliminary estimates based on current limited understanding of how tariffs will be implemented. Based on PSE's current assumption that all tariff costs will be recorded to accounts currently included in its PCA mechanism – and absent any accounting petition for different treatment –the full cost of tariffs to PSE's electric portfolio in 2025 (estimated $25 million) would materialize as a PCA under-recovery subject to sharing with customers according to the PCA sharing bands.

15. PSE anticipates that the increased costs resulting from the U.S. Tariffs could manifest in three primary ways – only the last two listed below are the subject of this petition:

1) Embedded in the Commodity Prices: occurs when PSE buys Canadian energy from another importer. When Canadian natural gas/electric power enters the U.S., PSE believes the importers will be responsible for paying the tariff upfront at the border. In order for these importers to recover the tariff cost and maintain profitability, PSE anticipates them raising their prices when reselling to downstream buyers such as PSE. These higher prices will be embedded in the

sales contract and supply agreement with PSE. Because it will not be possible to identify the embedded cost of the U.S. Tariffs outright in these situations, PSE is *not* requesting deferral treatment for these embedded costs in this petition and they will, by necessity, be handled in PSE's existing PCA mechanism or Purchase Gas Adjustment ("PGA") mechanism.

2) Indirectly Billed U.S. Tariff Costs: anticipated to occur in a similar situation as #1 but for which the importer includes the amount of the Energy Tariff directly on their bill to PSE. PSE is requesting these incremental tariff costs be deferred under this petition. At this time, PSE is not certain to which FERC account such payments will be charged. The two options PSE believes exist are:

   a. FERC 408.1 Taxes Other Than Income Taxes. FERC 408.1 Taxes Other Than Income Taxes is not a FERC account that is included in PSE's variable power cost baseline rate used to account for its PCA mechanism[10] or in its PGA mechanism. If it is determined that this is the appropriate FERC account for either electric or natural gas, PSE is requesting:

      i. Related to electric, these costs be deferred in their entirety; or

      ii. Related to natural gas, these costs be included in the PGA.

   b. FERC 555 Purchase Power or FERC 547 Fuel electrical energy and natural gas for power generation used for electric operations, respectively. These accounts are included in PSE's variable power cost baseline rate used to account for its PCA mechanism.[11] If it is determined that these are the appropriate FERC accounts, PSE is requesting these costs be excluded from its PCA mechanism and deferred in their entirety for the reasons stated in paragraph 10 above.

3) Directly Billed U.S. Tariff Costs: anticipated to occur when PSE is the direct importer of Canadian energy. In these instances, PSE will directly pay the U.S. Tariffs. Similar to item #2, the exact FERC account is not known, and the requested treatment depending on the FERC account is the same as outlined in #2 above.

16. At the time of filing, PSE believes there is potential that Canada could implement tariffs in response to the Energy Tariffs.[12] Although none are discussed for Canadian exports to Washington at this time, PSE requests that if they or any other tariff on energy should

[10] Page 3 of Attachment A to Settlement Stipulation in Docket UE-130617.
[11] *Id.*
[12] Ontario Premier Doug Ford threatens to cut energy to 3 US states

occur, it be allowed to defer such costs under this petition, which should mirror that discussed in #2 and possibly #3 above.

17. Given the potential magnitude of the costs of the Energy Tariffs, the granting of this petition is necessary to capture their impacts. As discussed above, these costs are outside of PSE's control, relate to benefits already being provided to customers, and represent an extraordinary circumstance that PSE could not have anticipated.

18. 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. At such time, the Commission will have before it the evidence and arguments necessary to address rate treatment issues including recoverability and thus will be able to rule upon these issues at that time.

IV. PROPOSED ACCOUNTING TREATMENT

19. The Company requests to defer the increased costs associated with Energy Tariffs or tariffs such as those in paragraph 16, at whatever tariff rate applies, related to its electric business that it pays either directly to the U.S. government or to counter parties to a FERC 186, Miscellaneous Deferred Debit account, with the offsetting entry recorded to where the increased cost would have typically been recorded, which, as was stated above, would be either FERC 408.1 Taxes Other than Income Taxes, FERC 555, Purchased Power, or FERC 547, Fuel.

20. Related to its natural gas business, PSE requests that should the Energy Tariffs or tariffs such as discussed in paragraph 16 at whatever rate applies require recording in FERC 408.1, PSE be allowed to include such charges in its existing PGA mechanism.

V. REQUEST FOR RELIEF

21. For the reasons discussed above, PSE respectfully requests the Commission issue an Order approving the deferred accounting.

DATED this 4th day of March, 2025.

Puget Sound Energy

By /s/ Susan E. Free

Susan E. Free
Director of Revenue Requirements and
Regulatory Compliance
Puget Sound Energy / PO Box 97034, BEL10W
Bellevue, WA 98009-9734
425-462-2105