Agenda Date: December 22, 2022
Item Number: A1

Docket: UG-220801
Company: Puget Sound Energy

Staff: Alex Tellez, Regulatory Analyst
Chris McGuire, Regulatory Analyst

Recommendation

Take no action, thereby allowing tariff sheets filed in Docket UG-220801 to become effective January 1, 2023, by operation of law.

Overview

On November 11, 2022, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to their Supplemental Schedule 137 Carbon Offset Service. Because the market for carbon offsets has become more competitive and the price of carbon offsets has increased as a result, the Company requests to adjust the monthly rate per block of carbon offset from $3.00 to $4.50. Additionally, PSE proposes to add clarifying language to the tariff so that it defines the 34.217 therms equivalent of per block of carbon offset. This proposed change would provide greater transparency to participants in the program.

Background

In the Settlement Stipulation for PSE's 2007 General Rate Case, PSE made a commitment to file a voluntary carbon-offset program for its natural gas customers which would allow customers to offset the greenhouse gas emissions associated with their natural gas use.[1] In 2011, PSE introduced their pilot offset program under Schedule 137.[2] Customers can enroll to offset an unlimited number of carbon balance blocks each month.[3] Each block equals 400 pounds of carbon dioxide equivalent or 34.217 therms which is one fifth of a Carbon Offset. PSE uses the revenues from Schedule 137 to purchase Green-e Climate Certified Carbon Offsets which are primarily forestry offsets from the Pacific Northwest region. PSE's program is also Green-e Climate Certified which ensures that offsets are retired with no risk of double counting. The offsets and PSE's program are audited annually.

[1] Docket U-072375, Appendix A to Multiparty Settlement Stipulation, Commitment 54, 11

[2] Docket UG-110242

[3] Commercial and industrial customers are required to purchase a minimum of two blocks.

Discussion

Program Reserves

PSE looks at customer demand 12 months or more in advance in order to take advantage of well-priced offsets and often holds contracts for offsets for 12 months or more in advance of delivery. As a self-funded voluntary service, the program relies on the Company maintaining a sufficient reserve balance for long term rate stability. The Company aims to have within 6 to 12 months of reserves. Based on participation and expense forecasts, PSE's proposed rate increase would allow the Company to maintain a reserve balance at the lower end of that 6-to-12-month range through 2024 (see chart below). Based on these projections, the Company estimates that by 2025, they may need to file for an additional increase.

Reserve Balance Projections

	2023	2024	2025
Projected reserve w/ $1.50 rate increase	$ 939,158	$ 984,740	$ 869,722
6-month reserve	$ 746,966	$ 896,412	$ 1,065,869
12-month reserve	$ 1,493,931	$ 1,792,825	$ 2,131,737

Upon reviewing the Company's workpapers and after discussions with PSE representatives, Commission staff (Staff) accepts that a 6-to-12-month program reserve balance is a reasonable target. However, it is not clear from the Company's analysis that the reserve balance is sized for the price and risk in the carbon offsets market. While Staff recommends that the Commission allow the proposed rates to go into effect, the Company should be encouraged to further evaluate how it can base its program reserves on an analysis of market risk. This may become more feasible as the voluntary carbon market continues to expand and mature.

Interest

Staff approached the Company about providing ratepayers interest or a carrying charge on the reserve balance. During discussions with the Company, it became apparent that the reserves are treated as working capital and therefore reduce PSE's rate base. While Staff is comfortable accepting this approach for now for passing the interest benefits from the reserve balance back to ratepayers, these benefits should in principle be passed back only to the ratepayers that contributed to the reserve, i.e., participants in the voluntary program, rather than the entire ratepayer population. Therefore, Staff recommends that PSE consider removing the reserve balance from working capital in its next rate case and instead include interest accrued on the reserve balance in the Schedule 137 rate calculation.

Interested Parties

Staff reached out to the Public Counsel unit. At this time, they do not plan on commenting on this docket.

Customer Comments

The Company sent notice to affected customers beginning November 2, 2022, notifying them of the proposed rate increase. Staff received 54 consumer comments. Forty-three comments are opposed to the increase, expressing shock at the size of the proposed increase and concern that the change would impact program participation. Four comments are in favor of the increase, referencing inflation and incentive to use less fossil fuel. Seven comments did not indicate a position on the proposal, a couple customers had questions about the proposal or the program itself. Customers were notified that they may access relevant documents about this rate increase on the Commission's website, and that they may contact Andrew Roberts at 1-888-333-9882 or andrew.roberts@utc.wa.gov with questions or concerns.

Conclusion

Staff reviewed the Company's filing and associated work papers and recommends the Commission take no action, thereby allowing tariff sheets filed in Docket UG-220801 to become effective January 1, 2023, by operation of law.