

Service Date: 08/15/2024

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Proceeding to
Develop a Policy Statement Addressing
the Impacts of the Climate Commitment
Act

DOCKET U-230161

POLICY STATEMENT ADDRESSING
THE ISSUES AND IMPACTS OF THE
CLIMATE COMMITMENT ACT

I. INTRODUCTION AND PROCEDURAL BACKGROUND

- 1 The 2021 Climate Commitment Act (CCA) caps emissions from covered entities in the state as part of Washington’s commitment to an equitable transition to clean energy. Additionally, the CCA aims to reduce carbon emissions by 95 percent below 1990 levels by 2050.¹ The market-based program sets an overall cap on greenhouse gas emissions and establishes a statewide cap-and-invest program. The purpose of the CCA is for the state’s largest emitting sources and industries to steadily reduce carbon emissions and air pollution while allowing the state to invest in climate-resiliency programs and clean transportation, and address health disparities in overburdened² and highly impacted communities.³ Under the CCA, electric investor-owned utilities (IOUs) subject to the Clean Energy Transformation Act (CETA)⁴ receive no-cost allowances to mitigate the cost burden of the cap-and-invest program on electric customers.⁵ Natural gas IOUs also receive no-cost allowances and must sell a share of their no-cost allowances to auction.⁶ Over time, the share of no-cost allowances that natural gas IOUs must put up for auction increases.
- 2 The CCA requires electric IOUs to submit forecasts of utility-specific supply and demand, as well as the utilities’ cost burdens resulting from the CCA, for each compliance period to the Washington Utilities and Transportation Commission (Commission) for approval,⁷ and in compliance with the schedule adopted in rules by the

¹ See RCW 70A.65.010(44); RCW 70A.45.020(1)(iv).

² RCW 70A.65.010(54).

³ RCW 70A.02.010(14)(a).

⁴ RCW 70A.65.120(1).

⁵ RCW 70A.65.120.

⁶ RCW 70A.65.130.

⁷ RCW 70A.65.120 (b),(c),(d).

Department of Ecology (Ecology).⁸ The Commission approved the first set of forecasts for electric IOUs on January 23, 2023.⁹ Electric and gas IOUs must use the proceeds from all no-cost allowances consigned to auction for the benefit of ratepayers, with the first priority being mitigating rate impacts to low-income electric customers and eliminating any additional cost burden to low-income gas customers.¹⁰

3 Under the CCA, most facilities or businesses that produce more than 25,000 metric tons of carbon emissions a year are required to obtain emission allowances, one per ton of carbon dioxide (CO₂) equivalent¹¹ of greenhouse gases emitted. The law sets the limit on overall carbon emissions and requires emitters to obtain emission allowances equal to their covered greenhouse gas emissions. These allowances are obtained through quarterly auctions hosted by Ecology or are bought and sold in a secondary market. In some cases, as in the case of electric and gas IOUs noted above, emitters receive no-cost allowances directly from Ecology. To meet the target goals of the CCA, the emissions cap will reduce incrementally over time, as will the amount of no-cost allowances.¹²

4 On March 15, 2023, the Commission initiated a workshop series addressing numerous issues arising from the CCA that affect IOUs. On September 13, 2023, the Commission issued a CR-101 to change the workshop series into a formal Rulemaking, and the CR-101 was amended on October 10, 2023, to include a review of rules governing gas IOUs and additional provisions governing electric IOUs. The topics covered in the workshop series and CR-101 can be found in the table below.

II. WORKSHOP AND COMMENT OVERVIEW

5 The Workshop Series consisted of four workshops with the schedule and discussion topics listed below.

Event	Topics
Workshop 1: April 10, 2023	<ul style="list-style-type: none"> - Commission Jurisdiction v. Ecology Jurisdiction - Docket Scope

⁸ [Allowance Allocation to Electric Utilities for the First Compliance Period \(2023-2026\)](#)

⁹ Avista Corporation d/b/a Avista Utilities, Docket UE-220770; PacifiCorp d/b/a Pacific Power & Light Company, Docket UE-220789; and Puget Sound Energy, Docket UE-220797.

¹⁰ RCW 70A.65.120(4); RCW 70A.65.130(2)(b).

¹¹ RCW 70A.65.010(1).

¹² WAC 173-446-210(a)(i)(ii).

Workshop 2: July 26, 2023	<ul style="list-style-type: none"> - No-Cost Allowances - Low-Income Definition - CCA Cost Recovery
CR 101 – Sept. 13, 2023 (Amended on Oct. 10, 2023)	<p><i>Focused on the requirements in WAC chapter 480-100 relating to Integrated Resource Plans (IRPs), Clean Energy Implementation Plans (CEIPs), and subsequent reporting and compliance.</i></p> <ul style="list-style-type: none"> - WAC 480-100-620, - WAC 480-100-640, and - WAC 480-100-650, <p><i>As well as other revisions or potential new sections in WAC chapter 480-100, addressing:</i></p> <ul style="list-style-type: none"> - (1) the use of revenues collected from an IOU through the consignment and auction of no-cost allowances for the benefit of ratepayers - (2) the allocation methodology for any potential costs associated with IOUs implementation of the CCA. <p><i>Revisions or new sections addressed in Amended CR-101:</i></p> <ul style="list-style-type: none"> - WAC 480-90-238 - WAC 480-107 - Potential adoption of new rules under RCW 80.28.380.
Workshop 3: Sept. 15, 2023	<ul style="list-style-type: none"> - CCA Forecasting, Long-Term Planning - CCA Tariffs and Cost Recovery - CCA Risk Sharing Mechanism
Workshop 4: Nov. 8, 2023	<ul style="list-style-type: none"> - CCA Risk Sharing Mechanism - Tariffs and Cost Recovery

6 The Commission received written comments in response to several notices and opportunities to comment from the Alliance of Western Energy Consumers (AWEC), Avista Corp. (Avista), Cascade Natural Gas (Cascade), Climate Solutions, Commission Staff, Grays Harbor Energy LLC (Grays Harbor), Jackie Truelove, James Adcock, NW Energy Coalition (NVEC), NW Natural Gas, NW & Intermountain Power Producers Coalition (NIPCC), PacifiCorp (PAC), the Public Counsel Unit of the Washington Attorney General’s Office (Public Counsel), Public Power Generating Pool, Puget Sound Energy (PSE), and The Energy Project (TEP).

7 Participants in the Workshops included AWEC, Avista, Cascade, Climate Solutions, Commission Staff, Grays Harbor, NVEC, NW Natural Gas, NIPCC, PAC, PSE, Public Counsel, TEP, Renewable Northwest (RNW), and Washington Conservation Action (WCA).

III. STATEMENT OF COMMISSION POLICY

A. Preliminary Remarks

- 8 The Commission appreciates the feedback that all participants provided either through workshop participation or written comment. The electric and gas IOUs are actively engaged in their 2025 Integrated Resource Plan (IRP) processes that will inform their CEIPs), capital investments, and strategies for compliance with both CETA and the CCA. At the same time, utilities are facing dynamic challenges such as grid reliability and resiliency, cyber security, energy conservation efforts, transmission system limitations, and changing market structures. In this context, the Commission finds it necessary to analyze all opportunities to mitigate customer rate impacts while ensuring compliance with legislative direction and maintaining the economic health of regulated utilities.
- 9 This policy statement provides the Commission’s guidance for IOUs regarding the following six topics related to the CCA: 1) Defining and Identifying Low-Income Customers, 2) Renewable Natural Gas (RNG) as a decarbonization pathway, 3) Utility Planning (Short and Long Term), 4) Cost Recovery, 5) Forecast Approval Timeline, and 6) Risk Sharing Mechanisms. These topics and others relating to CCA compliance will be addressed through the continuation of the rulemaking process or pending adjudications.

B. Defining and Identifying Low-Income Customers

Defining Low Income Customers

- 10 According to the CCA, “the benefits of all allowances consigned to auction under this section must be used by consumer-owned utilities and investor-owned electric utilities for the benefit of ratepayers, with the first priority the mitigation of any rate impacts to low-income customers.”¹³ Additionally, for natural gas utilities, the CCA states that “beginning in 2023, 65 percent of the no-cost allowances must be consigned to auction for the benefit of customers, including at a minimum eliminating any additional cost burden to low-income customers from the implementation of this chapter.”¹⁴
- 11 The CCA does not provide a definition for “low-income”, leading IOUs and interested participants to seek Commission guidance on defining and identifying this ratepayer group. This topic was discussed at the second CCA Workshop on July 26, 2023, and in the associated written comments. Parties expressed agreement on defining “low-income” using the CETA definition.

¹³ RCW 70A.65.120(4).

¹⁴ RCW 70A.65.130(2)(a).

12 Under CETA, “‘low-income’ means household incomes, as defined by the department¹⁵ or commission,¹⁶ provided that the definition may not exceed the higher of eighty percent of area median household income or two hundred percent of the federal poverty level, adjusted for household size.”¹⁷ The Department of Commerce adopted this definition in rule.¹⁸ The Commission finds the above definition appropriate for the purposes of using revenue from the consignment of CCA no-cost allowances for the benefit of ratepayers.

Identifying Low Income Customers

13 The Commission advises IOUs to establish a process for identifying low-income customers that utilizes “known low-income” (KLI) as the baseline for determining which customers experience “low-income” circumstances. In PSE’s CCA Tariff filed in Docket UG-230470, the Commission ordered the company to work with its Low-Income Advisory Group to “either identify additional KLI customers, or to automatically enroll low-income customers in a bill discount or bill assistance program, to reach a target of at least 70,000 participants.”¹⁹ As such, the Commission emphasizes that KLI should serve only as a baseline and not as a ceiling. IOUs should continue to expand the identification of customer’s experiencing low-income circumstances to include more than currently identified KLI customers.

C. Renewable Natural Gas as Decarbonization Pathway

14 Washington State law allows gas companies to propose renewable natural gas (RNG) programs under which they would “supply [RNG] for a portion of the natural gas sold or delivered to its retail customers.”²⁰ In this policy statement, the Commission does not seek to create further constraints upon IOUs for the use of RNG in serving customers beyond what is currently set in law and rule.

15 Regarding specific company considerations about whether to purchase RNG or purchase allowances, the Commission will not make any pre-determination and the standard prudence review process for cost recovery will apply. The Commission expects IOUs to make prudent decisions when determining whether to comply with the CCA through acquiring RNG or allowances, and that the IOUs maintain records of their decision-making process consistent with the Commission’s long standing prudence standards.

¹⁵ RCW 19.405.020(12) defines “department” as the “Department of Commerce.”

¹⁶ RCW 19.405.020(8) defines “commission” as the “Washington utilities and transportation commission.”

¹⁷ RCW 19.405.020(24).

¹⁸ RCW 194.40.030(b).

¹⁹ UG-230470, Order 01, paragraph 20.

²⁰ RCW 80.28.385(1).

16 Regarding future prudency reviews of RNG decisions, the Commission strongly advises IOUs that unrealistic levels of RNG modeling or reliance will not be found prudent. The supply of RNG is not large enough to meet all IOUs' needs if it is used as a primary compliance pathway for system decarbonization. Based on a 2019 study, in a highly aggressive scenario (including particular market conditions and the dedication of significant land), the US could potentially generate up to 4510 tBtu per year by 2040.²¹ From 2008-2018 the US used an average of 15850 tBtu a year.²² If an IOU makes RNG investment decisions based on modeling that does not reflect actual market availability, the Commission may reject these costs as imprudent.

17 Additionally, the Commission strongly encourages IOUs that all planning documents and modeling should reflect realistic levels of RNG. IOUs must be able to demonstrate to the Commission that there is adequate supply to meet the percentage of resource mix that they are claiming for RNG. Without evidence of an adequate supply of RNG, the Commission will not approve or acknowledge IRPs that rely upon such claims.

D. Utility Planning

18 The Commission expects IOUs to include the social cost of greenhouse gases (SCGHG) and CCA costs in both real-time dispatch and long-term IRP modeling.

Real-Time Dispatch

19 Including the SCGHG and CCA costs in real-time utility dispatch operations aligns utility operations and forecasting with the intention and statutory language of both the CCA and CETA²³ as well as the implementing rules.²⁴ Including these statutorily required costs produces a more accurate reflection of the true cost of the emitting resources. This guidance is intended to encourage IOUs to strongly reconsider the use of unspecified market purchases rather than clean energy when sourcing energy to serve load.

20 CETA and CCA seek to drive an equitable transition to renewable energy. For the transition to be equitable, more accurately reflecting the entire cost of emitting resources, SCGHG and allowance costs should be included in dispatch decisions. Under CETA, electric IOUs are required to incorporate the SCGHG in their IRPs as the emission of

²¹ American Gas Foundation, Renewable Sources of Natural Gas: Supply and Emission Reductions Assessment, pg.11. <https://gasfoundation.org/wp-content/uploads/2019/12/AGF-2019-RNG-Study-Full-Report-FINAL-12-18-19.pdf>

²² American Gas Foundation, Renewable Sources of Natural Gas: Supply and Emission Reductions Assessment, pg.11. <https://gasfoundation.org/wp-content/uploads/2019/12/AGF-2019-RNG-Study-Full-Report-FINAL-12-18-19.pdf>

²³ RCW 19.405.060(1)(b)(i), RCW 19.280.030(3)(a), RCW 80.28.380.

²⁴ WAC194-40-100(1), WAC 194-40-110.

GHGs produces negative externalities for both the global climate and local communities. As such, this cost must be accounted for. Including the SCGHG in dispatch decisions captures a more accurate and measurable impact of these externalities. The Commission intends to amend its adoption order in consolidated dockets UE-191023 and UE-190968 to reflect this, and until the Commission does so, IOUs should follow the Commission's finding in this policy statement rather than prior rules that allow IOUs full discretion on how to incorporate the SCGHG.²⁵

- 21 Additionally, the fundamental goal of the CCA is to reduce emissions associated with the natural gas system. While CETA mandates changes to the generation portfolio, the CCA targets total emissions output. The mandated reduction in emissions is intended to mitigate and remediate (through projects using CCA revenue) the disproportionate harm that is, and has been, caused by energy generation and distribution to highly impacted communities and vulnerable populations. This reduction in harm is achieved through a net-neutral and, eventually, entirely non-emitting energy system. Including the SCGHG and CCA costs in each IOU's real-time decision-making process furthers this intention.
- 22 Further, both CETA and the CCA provide an avenue for ameliorating potential impacts on the most vulnerable populations. CETA does so through requiring specific targets for energy efficiency, demand response, and renewable energy²⁶, specific interim targets to meet the standards of RCW 19.405.040(1)²⁷, specific actions to ensure an equitable transition²⁸, indicators to track the energy and non-energy benefits of the IOUs' specific actions²⁹, and the forecasting of the expected impact of specific actions on highly impacted communities and vulnerable populations.³⁰ CCA does so by directing IOUs to use the CCA revenue they receive from the retirement of no-cost allowances to mitigate (for electric customers) and eliminate (for gas customers) the cost impact of the CCA.

Long-Term IRP Modeling

- 23 The Commission expects the IOUs to model the inclusion of the SCGHG and CCA costs into their long-term IRP planning. The Commission sets this expectation for two reasons. First, by statute and by Commission rule, the electric IOUs are required to include the

²⁵ UE-191023 and UE-190968 consolidated, General Order 601, paragraph 37. Note that the Commission intends to move under WAC 480-07-875 to amend this portion of the adoption order for consistency with the guidance in this statement.

²⁶ RCW 19.405.060(1)(a)(i).

²⁷ RCW 19.405.060(1)(a)(ii).

²⁸ WAC 194-40-200 (4).

²⁹ WAC 194-40-200 (4)(c)(i).

³⁰ WAC 194-40-200 (4)(c)(ii).

SCGHG emissions as a cost adder in their IRPs³¹ and Clean Energy Action Plans (CEAPs).³² Second, given that CEIPs are largely informed by IRPs and CEAPs, the Commission views it as imperative that the true cost of emitting resources is included when IOUs conduct their IRP portfolio expansion modeling. Ensuring that the IRP modeling is accurate and holistic of emissions costs helps ensure that the portfolio selection process and the selection of specific actions for CEIPs are also based on holistic and accurate information. Finally, as described in the real-time dispatch section, inclusion of these costs ensures that the true costs of emitting resources are captured in portfolio planning. Without incorporating the SCGHG and CCA costs into IRP modeling, the IOUs will make resource selections based on incomplete cost calculations, which may lead to models overvaluing emitting resources. The inclusion of the SCGHG and CCA costs in IRP dispatch modeling will create a portfolio that best achieves the goals of the CCA and CETA. The Commission also advises the IOUs that this applies to the development of ISPs as well.

E. Electric Forecast Submission and Approval Timelines

- 24 While the Commission intends to address this issue further in the formal rulemaking process, the Commission provides interim guidance here. Under Ecology’s recently adopted rules, “[t]he number of allowances to be allocated to qualifying utilities will be published on the ecology website no later than October 1st in the calendar year prior to each compliance period.”³³ As such, the Commission strongly advises IOUs to submit their CCA electric forecast updates to the Commission no later than June 1 of each year for approval. This is to provide the Commission with adequate time to review and approve the forecasts as they must be approved by July 30 for Ecology to incorporate the changes prior to their October 1 publication date, per Ecology rules.³⁴ Submitting forecast updates later than June 1 may result in the Commission being unable to review and approve the filing prior to Ecology’s July 30th deadline.
- 25 Participants have expressed that neither a utility’s IRP nor CEIP should be used as the primary source for load and resource forecasts. Instead, they believe that the resource and load forecasts for the CCA should be developed using the power cost models used to establish the Power Cost Adjustment (PCA). The Commission disagrees with this as the CEIP and IRP are fundamental planning documents that are holistic and inclusive of the necessary conditions upon which a forecast is based. Additionally, Ecology’s rules explicitly state that when determining the allocation of no-cost allowances electric utilities, Ecology will rely upon a “forecast of supply or a forecast of demand, along with

³¹ WAC 480-100-620 (11)(j).

³² RCW 19.280.030 (3)(a).

³³ WAC 173-446-230 (h)(i).

³⁴ WAC 173-445-230(2)(j).

any supporting information, which has been approved by the utilities and transportation commission in the case of an investor-owned utility... Any such forecast must also be consistent with the clean energy implementation plan.”³⁵ Further in the rules, Ecology states that it will rely upon IRPs when making its allocation determination as well.³⁶ The Commission advises the IOUs that they should be basing their resource and load forecasts for the CCA consistent with the modeling of their IRPs and CEIPs. The upcoming rulemaking process will further refine the definition of “substantive change” that is outlined in statute.

F. Cost Recovery

- 26 The Commission plans to address cost recovery requirements in an upcoming rulemaking following this interim Policy Statement. As those discussions and rules continue, the Commission notes that, with the exception of Cascade, the IOUs have been seeking only allowance costs in their individual CCA tariff submissions for cost recovery. All other costs have been included within general rate filings (GRC).
- 27 Until the it develops further rules or provides direction in separate proceedings, the Commission provides guidance to IOUs and interested parties that CCA allowance costs should continue to be addressed through individual tariffs, for now, with the remaining administrative and program implementation costs included in the IOUs’ GRCs. The CCA markets are still in development with significant volatility in allowance prices. Maintaining separate trackers for allowance costs provides several benefits including increased transparency on CCA costs, increased transparency on the IOUs’ CCA compliance strategy (whether it be the purchase of allowances or decarbonization) and provides interested participants another opportunity in which to intervene or receive clarity on the IOUs’ CCA costs and compliance strategies.
- 28 In the future, either through rulemaking or order in an adjudication, the Commission may set a threshold for costs over which IOUs would need to move their CCA costs into their GRC, rather than maintaining the use of separate trackers. While there will be further opportunities for public comment regarding a threshold, some potential options include, but are not limited to, use of the “major cost” threshold already used in GRCs, CCA forecasts to determine a threshold, or Ecology’s trigger of the sale or auction of price ceiling units. In the event that no allowances remain in the allowance price containment reserve, Ecology’s rules require it to issue price ceiling units for sale at the ceiling price to covered entities that do not have sufficient eligible compliance instruments.³⁷ Ecology will hold price ceiling unit sales only if a covered entity requests such a sale at least 10

³⁵ WAC 173-446-230(c)(i).

³⁶ WAC 173-446-230(c)(ii).

³⁷ WAC 173-446-380 (1).

days before the immediately upcoming deadline for a four-year compliance period.³⁸ When making such a request, the covered entity must provide proof to Ecology that the entity does not have sufficient compliance instruments to meet its obligations for the upcoming deadline.³⁹ However, until such a time, the Commission advises that CCA allowance costs be tracked and addressed separately from GRCs.

- 29 Regarding the question of purchasing allowances versus making investments in decarbonization, the Commission desires more detailed discussion on this through the rulemaking process rather than stating a position in this Policy Statement. However, in the near term, until the IOUs submit decarbonization plans, there must be other steps taken before the Commission can determine the prudence of such a plan compared to purchasing allowances. Since the law allows the purchase of allowances as a means of complying with the CCA, the Commission cannot and will not bar utilities from the purchase of allowances rather than decarbonization. However, IOUs should be mindful to demonstrate, depending on their course of action, that such actions will be evaluated under a prudence standard. For example, IOUs are required to submit CEIPs, including the impact of the CCA on those plans, so that the Commission can have a more holistic picture when determining the prudence of an allowance-based strategy versus one that incorporates decarbonization investments.⁴⁰ For instance, based on the legislative direction in both CETA and the CCA, IOUs should be developing plans that incorporate how they plan to switch from solely relying on allowances to other investments.

G. Risk Sharing Mechanism

- 30 An adjudication is pending before the Commission regarding the issue of how IOUs should design and implement risk-sharing mechanisms. In Order 01 of Docket UG-230470, the Commission approved PSE's tariffs but ordered PSE to "work with parties to develop a proposal for a risk sharing mechanism" in order to "propose a risk sharing mechanism in its October filing for Commission review."⁴¹
- 31 As part of submitting revised tariffs in Docket UG-230968, that included use of CCA revenue for decarbonization projects, PSE stated that "included with this filing is a document describing a Risk-Sharing Mechanism in compliance with Order 01 in Docket UG-230470."⁴² Staff contended that the Company did not submit a risk-sharing mechanism as ordered, and recommended that the tariff revision be suspended for

³⁸ WAC 173-446-385 (3).

³⁹ WAC 173-446-385 (4).

⁴⁰ See UE-210793, Order 08, paragraph 363.

⁴¹ UG-230470, Order 01, paragraph 22.

⁴² UG-230968, PSE Cover Letter, paragraph 6.

adjudication, with rates being allowed to go into effect temporarily.⁴³ In Order 01 of that docket, the Commission agreed to suspend the case for adjudication. In particular, the Commission acknowledged that “the issue of a risk sharing mechanism for CCA compliance costs is a complex one, and the Commission would benefit from a full record, including testimony and briefing from the parties.”⁴⁴

32 As such, the Commission awaits resolution of that adjudication before providing final guidance on the development and implementation of risk-sharing mechanisms for CCA costs. In the interim, the Commission finds that it has the legal authority to require the development and implementation of such mechanisms.⁴⁵ As noted in Order 01 of Docket UG-230470, the Commission believes that “the CCA is meant to serve as a price signal to both utilities and their customers, encouraging both to modify their behavior to reduce carbon emissions. The mechanism should share risk such that all parties are encouraged to reduce their emissions, and, in turn, the costs required for CCA compliance.”⁴⁶

IV. CONCLUSION

33 The Commission issues this Policy Statement pursuant to RCW 34.05.230 and WAC 480-07-920. This statement contains guidance related to the expectations and preferences for IOUs’ reporting, implementation, and compliance with the Climate Commitment Act. Additionally, we find topics such as Cost Recovery and Electric Forecast Submission Timeliness to be more appropriately addressed in a formal rulemaking. As provided in RCW 34.05.230, this Policy Statement does not constitute an order binding upon either the Commission or the parties that may come before it in current or future formal proceedings, nor is this Policy Statement an enforceable rule.

DATED at Lacey, Washington, and effective August 15th, 2024.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

⁴³ UG-230968, Order 01, paragraph 7.

⁴⁴ UG-230968, Order 01, paragraph 14.

⁴⁵ UG-230470, Order 01, paragraph 22.

⁴⁶ UG-230470, Order 01, paragraph 22.

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner