

Agenda Date: March 24, 2011  
Item Number: A2

**Docket:** UG-110242  
Company: Puget Sound Energy

Staff: Vanda Novak, Regulatory Analyst

### **Recommendation**

Take no action, allowing the tariff filed by Puget Sound Energy (PSE or company) in Docket UG-110242 to become effective March 25, 2011, by operation of law.

### **Background**

This voluntary program was developed as part of a Multiparty Settlement Stipulation in Docket U-072375. The program is designed to provide natural gas customers an option to contribute to regional projects which will reduce or capture greenhouse gas emissions beginning April 1, 2011.

### **Discussion**

The average residential gas customer uses 68 therms of gas monthly. Each therm of gas has been estimated to produce about 11.69 pounds of carbon dioxide emissions<sup>1</sup>, making the average residential gas customer a producer of about 795 pounds of carbon dioxide emissions per month.

The price to purchase one block of carbon offset has been set \$4 per block, where one block equals 400 pounds of Carbon Dioxide Equivalent or approximately one fifth of one Carbon Offset. An average residential customer would be carbon neutral with the purchase of two blocks per month, at a price of \$8. The minimum monthly purchase for a residential customer is one block. Approximately 60% of the amount that customers pay to offset is directly attributed to the purchase of the offset, the remainder being applied to program administration.

The program is also available to commercial and industrial customers. A minimum purchase of two blocks, or \$8, is required. A commercial customer purchasing 2 blocks would cover approximately 18 percent of the carbon dioxide emissions of the average commercial customer. A 100 percent offset would require a purchase of 11 blocks a month. An average industrial customer uses 996 therms a month on a normalized basis. A purchase of two blocks by this group would cover about 7 percent of their carbon dioxide emissions, requiring a purchase of 29 blocks per month to offset 100 percent of the usage for the average industrial customer. Usage varies quite considerably between individual commercial and industrial customers so in order to purchase an appropriate number of blocks to achieve a 100 percent offset, PSE is willing to work

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<sup>1</sup> Source: EPA Mandatory GHG Reporting Rule, Table NN-1 to Subpart NN of 40 CFR Part 98 - Default Factors for Calculation Methodology Federal Register, Vol. 74, No. 209, Page 56503

directly with customers to determine their annual therm use, and their respective appropriate offset amount.

A Carbon Dioxide Equivalent is the amount of other greenhouse gases such as methane that is equal to the global warming potential of one metric ton, or 2,204.6 pounds, of carbon dioxide.

A Carbon Offset is defined as the unit a company creates or obtains in the marketplace that represents a verified amount of greenhouse gas reduction that is registered with a state, national, or international trading authority or exchange. One Carbon Offset equals one metric ton or 2,204.6 pounds of carbon dioxide or Carbon Dioxide Equivalent.

The price of \$4 per block was established by PSE from an estimate of total expenses over the 3 year period from 2011 to 2013 divided by the total number of blocks estimated to be purchased. The total expenses of implementing this program include administration, overheads, marketing, and the actual purchase of Carbon Offsets at \$12 per offset. Carbon Offsets will be purchased from the Bonneville Environmental Foundation, a certified provider of offsets.

The price at which Bonneville Environmental Foundation sells its carbon offsets is based on their experience purchasing carbon offsets sources from certified projects located in the Pacific Northwest. PSE's choice of this provider is the result of a Request for Proposal for offsets which the company issued and determined that the Bonneville Environmental Foundation proposed reasonable pricing based on the pricing offered by other respondents for similar project types and locations.

The estimate of customer participation over the three year period was modeled after the participation levels in the Green Power Program and it was assumed that participation in the new natural gas carbon offset pilot program would have similar customer interest. The price per block was developed based on this assumption. If the level of customer participation does not materialize, the company plans to make adjustments in the number of offsets purchased from the Bonneville Environmental Foundation, the amount of employee time dedicated to program support, and marketing and overhead expenses before considering a change in the customer charge. PSE will not seek to recover any program costs from all ratepayers, in the event that the program is not sufficiently funded from participant fees. This program is designed as a self-funded, pass-through program, where the revenues and expenditures of the program will be recognized in deferred balance sheet accounts with no resulting impact on the income statement. As such, the company anticipates that initially there will be excess costs in the net deferral until customer participation is sufficient to the point that the resulting revenue is adequate to offset all program costs.

### **Conclusion**

Take no action, allowing the tariff filing in Docket UG-110242 to become effective March 25, 2011 by operation of law.