

**EXH. MS-1T
DOCKET UG-230968
WITNESS: MATT STEUERWALT**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

Docket UG-230968

PUGET SOUND ENERGY,

Respondent.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

MATT STEUERWALT

ON BEHALF OF PUGET SOUND ENERGY

APRIL 25, 2024

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
MATT STEUERWALT**

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1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **MATT STEUERWALT**

4 **I. INTRODUCTION**

5 **Q. Please state your name, business address, and position with Puget Sound**
6 **Energy.**

7 A. My name is Matt Steuerwalt, and my business address is Puget Sound Energy,
8 P.O. Box 97034, Bellevue, Washington 98009-9734. I am employed by Puget
9 Sound Energy (“PSE”) as Senior Vice President of External Affairs.

10 **Q. Have you prepared an exhibit describing your education, relevant**
11 **employment experience, and other professional qualifications?**

12 A. Yes. See Exh. MS-2.

13 **Q. What are your duties as Senior Vice President of External Affairs for PSE?**

14 A. As Senior Vice President of External Affairs for PSE, I lead efforts to engage
15 with policymakers, communities, regulators, and the general public.

16 **Q. What is the purpose of this prefiled direct testimony?**

17 A. This prefiled direct testimony

18 (i) provides relevant background related to this proceeding;

1 (ii) addresses PSE’s concerns about the adoption of any risk-
2 sharing mechanism associated with the Climate
3 Commitment Act, and

4 (iii) provides a recommendation for future action.

5 II. RELEVANT BACKGROUND

6 Q. What is the Climate Commitment Act?

7 A. On May 17, 2021, Governor Jay Inslee signed Engrossed Substitute Senate
8 Bill 5126,¹ more commonly referred to as the Climate Commitment Act into law.

9 The Climate Commitment Act establishes a comprehensive, market-based
10 program intended to reduce state greenhouse gas emissions to meet the state’s
11 reduction goals in RCW 70A.45.020, which the legislature updated in 2020. The
12 Climate Commitment Act started on January 1, 2023, and the Department of
13 Ecology held the first emissions allowance auction on February 28, 2023.

14 PSE is a covered entity, as defined in RCW 70A.65.080, and must participate in
15 the compliance program by acquiring compliance instruments (allowances or
16 offsets) for both its electric and natural gas local distribution company (“LDC”)
17 operations. Please see the Prefiled Direct Testimony of Jason Kuzma, Exh. JK-
18 1T, for more information about the Climate Commitment Act.

¹ Engrossed Substitute Senate Bill 5126, codified as Chapter 70A.65 of the Revised Code of Washington (RCW), available at <https://lawfilesext.leg.wa.gov/biennium/2021-22/Pdf/Bills/Session%20Laws/Senate/5126-S2.SL.pdf?q=20240408121924>.

1 **Q. Were you involved in the design and passage of Washington’s Cap-and-**
2 **Invest Program?**

3 A. Yes. I served as Governor Chris Gregoire’s policy lead during the development of
4 the Western Climate Initiative (“WCI”). The WCI is a non-profit organization
5 originally founded in February 2007 by the governors of Arizona, California,
6 New Mexico, Oregon, and Washington, with the goal of developing a multi-
7 sector, market-based program to reduce greenhouse gas emissions. The WCI
8 administers the shared emissions trading market for the linked California and
9 Quebec cap-and-trade program. The WCI also administers the individual
10 emissions trading systems for Cap-and-Invest Program in Washington and cap-
11 and-trade program of the Province of Nova Scotia. I helped design legislation in
12 those years to authorize Washington’s participation in a regional greenhouse gas
13 emissions market, which was never enacted.

14 I also served as the Executive Director of Policy to Governor Inslee, in which role
15 I oversaw the policy development of a series of economy-wide emissions
16 reductions policies, and the legislative discussions around those policies.

17 Although the legislature never enacted those policies, the policies formed the
18 foundation for many of the features of the existing Cap-and-Invest Program.

19 Subsequent to my service as a policy advisor to Governor Inslee, PSE (and other
20 entities) retained me to act as a lobbyist during the negotiations and successful
21 passage of the Climate Commitment Act. In this role, I was very engaged in the

1 design of provisions of the Climate Commitment Act applicable to electric and
2 natural gas LDC utilities.

3 **Q. What is your understanding of how the legislature intended for the Climate**
4 **Commitment Act to function?**

5 A. The Climate Commitment Act is an economy-wide, market-based system
6 designed to reduce overall greenhouse emissions within Washington. The Climate
7 Commitment Act covers many sectors of the economy and not a single aspect
8 (e.g., electric or natural gas LDC utilities). The Climate Commitment Act does
9 not require any single entity to reduce greenhouse gas emissions. Rather, the
10 Climate Commitment Act requires covered entities to acquire compliance
11 instruments (allowances or offset credits) to cover greenhouse gas emissions. As
12 the total number of available allowances declines, each covered entity can make a
13 choice—the covered entity must reduce emissions or acquire compliance
14 instruments to cover emissions obligations, whichever is more cost-effective.

15 **Q. Is Washington’s Cap-and-Invest Program similar to California’s cap-and-**
16 **trade system?**

17 A. It is fair to say that Washington’s Cap-and-Invest Program was modelled on
18 California’s cap-and-trade program. Indeed, one intent of the design of the Cap-
19 and-Invest Program was for it to be sufficiently similar to the California cap-and-
20 trade program to allow linkage of the programs.

1 The natural gas provisions of the Cap-and-Invest Program were intentionally
2 designed to match those in the California cap-and-trade program. Both programs
3 place the compliance obligation for greenhouse emissions associated with the
4 combustion of natural gas on the natural gas LDC utility and not on individual
5 commercial and residential customers. Both programs provide no cost allowances
6 for the benefit of customers of natural gas LDC utilities that decline at same rate
7 as the decline of allowances in the programs. Both programs require the
8 consignment of a portion of no cost allowances for the benefit of customers. Both
9 programs require natural gas LDC utilities to pass the benefits of the revenues
10 from consigned no cost allowances back to customers in a non-volumetric
11 fashion. See Exh. MS-3 for the text of the Climate Commitment Act as it pertains
12 to natural gas utility compliance obligations.

13 **Q. Does the Climate Commitment Act require a risk-sharing mechanism or for**
14 **natural gas LDC utilities to reduce emissions of their customers?**

15 A. No. Nothing in the Climate Commitment authorizes a risk-sharing mechanism, or
16 for natural gas LDC utilities to reduce emissions of their customers. Instead, the
17 Climate Commitment Act requires natural gas LDC utilities to acquire a volume
18 of compliance instruments (allowances or offset credits) sufficient to cover the
19 emissions from the combustion of natural gas delivered to customers.

1 **Q. Did the legislature consider a risk-sharing mechanism requirement for**
2 **natural gas LDC utilities in the development of the Climate Commitment**
3 **Act?**

4 A. To my knowledge, the legislature never considered a risk-sharing mechanism
5 requirement for natural gas LDC utilities in the development of the Climate
6 Commitment Act. Certainly, no such provision appeared in any draft legislation
7 or comments from interested parties that I reviewed.

8 **Q. Would PSE be opposed to any risk-sharing mechanism for Climate**
9 **Commitment Act compliance?**

10 A. PSE is opposed to any sharing mechanism that exceeds the statutory requirements
11 of Climate Commitment Act. In particular, PSE believes that any proposal that
12 requires PSE to be responsible for greenhouse gas emissions of customers of its
13 natural gas LDC operations would be contrary to the express design of the
14 Climate Commitment Act. As noted above, the intent of the Climate Commitment
15 Act is to require emissions reductions in the most cost effective manner across the
16 economy and does not require specific emissions reductions by any entity, even
17 covered entities, like PSE, subject to compliance under the Climate Commitment
18 Act. So long as PSE satisfies its compliance obligations under the Climate
19 Commitment Act by either reducing emissions or acquiring compliance
20 instruments, the Commission should be satisfied that the law is producing its
21 intended results.

1 **III. PSE’S PROPOSED CLIMATE COMMITMENT ACT**
2 **PERFORMACE INVENTIVE MECHANISM**

3 **Q. Is PSE filing the same proposed risk-sharing mechanism in this proceeding**
4 **as that filed on October 31, 2023, in Docket UG-230470, and on**
5 **November 22, 2023, in this docket?**

6 A. No. PSE is not filing the same proposed risk-sharing mechanism in this
7 proceeding as that filed on October 31, 2023, in Docket UG-230470, and on
8 November 22, 2023, in this docket. PSE did not receive support for the proposed
9 risk-sharing mechanism filed on those dates. The risk-sharing mechanism
10 proposed by PSE in the Prefiled Direct Testimony of Christopher T. Mickelson,
11 Exh. CTM-1CT, referred to as the Climate Commitment Act Risk Sharing
12 Mechanism (“CCA RSM”), possible risk sharing mechanism for costs incurred as
13 a result of the Climate Commitment Act.²

14 In proposing the CCA RSM, PSE considered recent policy guidance issued by the
15 Commission on performance incentive mechanisms in Docket U-210590.³ PSE’s
16 proposed CCA RSM aims to provide a mechanism for sharing financial risks
17 associated with acquiring compliance instruments (allowances or offsets) under
18 the CCA, setting thresholds based on statistical analysis to establish sharing bands

² *WUTC v. Puget Sound Energy*, Docket UG-230968, Order 02 at ¶ 19, (Feb. 12, 2024).

³ See, e.g., *In the Matter of the Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Interim Policy Statement Addressing Performance Measures and Goals, Targets, Performance Incentives, and Penalty Mechanisms, Docket U-210590 (Apr. 12, 2024), available at <https://apiproxy.utc.wa.gov/cases/GetDocument?docID=286&year=2021&docketNumber=210590>.

1 between PSE and customers of its natural gas local distribution company (“LDC”)
2 operations. The proposed CCA RSM more closely aligns to PSE’s Power Cost
3 Adjustment Mechanism, which the Commission has previously identified as an
4 example of a risk-sharing mechanism.⁴

5 Please see the Prefiled Direct Testimony of Christopher T. Mickelson, Exh. CTM-
6 1CT, for a discussion of PSE’s proposed CCA RSM. Please see Exh. CTM-3C for
7 PSE’s proposed CCA RSM.

8 **Q. What specific elements influenced the development of PSE’s proposed CCA**
9 **RSM?**

10 A. One of the primary principles that influenced the development of PSE’s proposed
11 CCA RSM is the principle that a mechanism address factors reasonably within the
12 control of the utility:

13 **6. Reasonably within the utility’s control**

14 Metrics will seek to measure factors that are reasonably
15 affected by the utility’s actions and not be entirely based on
16 external influences (i.e., market prices, weather, and mean
17 area median incomes) without limiting the Commission’s
18 authority and to the extent they do not hinder the
19 advancement of equity and energy justice.⁵

20 Factors currently at play in terms of greenhouse gas emissions of customers of
21 PSE’s natural gas LDC operations are beyond the control of PSE, including
22 weather, changes in customer demand, prices of Climate Commitment Act

⁴ *Climate Commitment Act Workshop Series*, slide 12, Docket U-203161 (Nov. 8, 2023), available at <https://apiproxy.utc.wa.gov/cases/GetDocument?docID=139&year=2023&docketNumber=230161>.

⁵ See Interim Policy Statement, note 3, at ¶ 22 (Principle 6).

1 compliance instruments, availability of Climate Commitment Act compliance
2 instruments, changes in the broader economy, and existing, new, and changing
3 statutory and regulatory mandates.

4 To require PSE to share in costs for factors beyond its control violates established
5 regulatory principles of risk and reward. Any risk-sharing mechanism that
6 evaluates performance of a natural gas LDC utility based upon emissions
7 reductions of its customers would violate the Commission’s principle identified in
8 Docket U-210590⁶ because temperatures and customer behavior are outside the
9 control of the utility. Indeed, Although PSE can—and will—offer incentives to
10 encourage customers to reduce greenhouse gas emissions, customers are
11 ultimately the ones who must change their energy usage or take advantage of a
12 decarbonization or targeted electrification project offered by PSE.

13 Moreover, as pointed out in comments by the Alliance of Western Energy
14 Consumer (AWEC),⁷ the Cap-and-Invest Program is a market-based mechanism
15 designed to reduce emissions and does not include sector-based emissions caps or
16 targets:

17 AWEC continues to have serious concerns about the development
18 of a risk sharing mechanism, at least at this time. As AWEC noted
19 in its September 7th comments, the Cap-and-Invest program is, by
20 design, a market-based mechanism, meaning that the market is
21 intended to provide the incentive to reduce emissions. The program
22 also includes noncompliance penalties, which further serve to
23 incentivize compliant utility actions. Accordingly, to the extent a

⁶ See Interim Policy Statement, note 3, at ¶ 22 (Principle 6).

⁷ Alliance of Western Energy Consumers Comments, Docket U-230161 (Nov. 3, 2023), available at <https://apiproxy.utc.wa.gov/cases/GetDocument?docID=132&year=2023&docketNumber=230161>.

1 risk-sharing mechanism is designed to reduce emissions beyond
2 what will occur naturally through the Cap-and-Invest program and
3 in a manner that increases costs to customers, AWEC is firmly
4 opposed to such a mechanism.⁸

5 Consistent with the sixth principle enunciated by the Commission in its Interim
6 Policy Statement,⁹ PSE designed the proposed CCA RSM around factors that are
7 reasonably within the control of PSE (i.e., activities undertaken by PSE to acquire
8 compliance instruments to cover the emissions of customers of PSE's natural gas
9 LDC operations). A risk-sharing mechanism based on emissions thresholds fails
10 to comport with the overall design or intent of the Cap-and-Invest Program and
11 the sixth principle identified in Interim Policy Statement.

12 **IV. PSE HAS SIGNIFICANT CONCERNS ABOUT THE ADOPTION OF**
13 **ANY CLIMATE COMMITMENT ACT RISK-SHARING MECHANISM**

14 **Q. Why is PSE filing the proposed CCA RSM in this proceeding?**

15 A. PSE has filed the proposed CCA RSM in this proceeding because the
16 Commission ordered PSE to do so:

17 We largely agree with Staff's updated recommendation to suspend
18 this matter for adjudication while allowing rates on an interim basis,
19 subject to later review and refund. The issue of a risk sharing
20 mechanism for CCA compliance costs is a complex one, and the
21 Commission would benefit from a full record, including testimony
22 and briefing from the parties.¹⁰

⁸ Alliance of Western Energy Consumers Comments, note 7. at ¶ 2.

⁹ See Interim Policy Statement, note 3, at ¶ 22 (Principle 6).

¹⁰ *Id.* at ¶ 14.

1 **Q. Does PSE believe a Climate Commitment Act risk-sharing mechanism is**
2 **warranted?**

3 A. No. PSE is concerned with the legality, feasibility, and timeliness of developing a
4 risk-sharing mechanism for the Climate Commitment Act.

5 There is no mechanism by which natural gas companies can require any customer
6 to reduce emissions or switch from natural gas to electric service. Such decisions
7 are decisions of customers alone.

8 PSE can, and will, work with interested parties to develop decarbonization and
9 targeted electrification plans and programs, but nothing in the Climate
10 Commitment Act compels customers to take advantage of those programs.

11 If the Commission ultimately imposes a risk sharing mechanism on PSE that
12 evaluates performance based upon emission of customers of its natural gas LDC
13 operations, the Commission will place PSE in the untenable position of (i) having
14 a statutory duty to sell as much natural gas as demanded by customers and
15 (ii) potentially penalizing PSE for the emissions created by the combustion of
16 such natural gas by the customers.

1 **Q. Do other actions exist within the reasonable control of PSE to assist**
2 **customers of its natural gas LDC operations to reduce greenhouse gas**
3 **emissions?**

4 A. Yes. PSE has a limited number of actions within its reasonable control to assist
5 customers of its natural gas LDC operations to reduce greenhouse gas emissions.
6 For example, PSE could include alternative fuels, such as renewable natural gas,
7 within the LDC commodity portfolio. Renewable natural gas costs more than
8 conventional gas; however, it does assist customers of PSE's natural gas LDC
9 operations in the reduction of greenhouse gases in two ways:

10 (i) by reducing CO₂e emissions that might otherwise occur if
11 the methane and/or CO₂ associated with the renewable
12 natural gas is not captured and brought to market, and

13 (ii) by avoiding upstream emissions related to the production of
14 the conventional gas replaced by the renewable natural gas.

15 Due to a limited availability of supply of renewable natural gas in the Pacific
16 Northwest, high costs to upgrade renewable natural gas to satisfy gas pipeline
17 specifications, and competition with compliance markets in California, PSE has
18 used staggered regionally- and nationally-source renewable natural gas supply
19 and project development timelines, markets, and other methods to obtain
20 renewable natural gas costs at a reasonable cost to achieve meaningful greenhouse
21 gas reductions.

22 State laws and policies, however, simultaneously limit the ability of PSE to
23 transition to new fuels. For example, RCW 80.28.385 permits PSE to supply

1 renewable natural gas for a portion of the natural gas sold or delivered to retail
2 customers but limits the cost of volume of renewable natural gas by imposing a
3 cap:

4 A natural gas company may propose a renewable natural gas
5 program under which the company would supply renewable natural
6 gas for a portion of the natural gas sold or delivered to its retail
7 customers. The renewable natural gas program is subject to review
8 and approval by the commission. The customer charge for a
9 renewable natural gas program *may not exceed five percent of the*
10 *amount charged to retail customers for natural gas.*¹¹

11 PSE is currently approaching the five percent cap in RCW 80.28.385(1). This
12 restriction severely limits the ability of PSE to rely on renewable natural gas to
13 decarbonize the fuel supply for customers of its natural gas LDC operations.

14 PSE does have a natural gas service schedule—Supplemental Schedule 138—that
15 is a voluntary renewable natural gas service offered pursuant to RCW 80.28.390.

16 This schedule provides all customers of PSE’s natural gas LDC operations with a
17 voluntary opportunity to purchase Renewable Natural Gas as
18 established by RCW 80.28.390, as an optional rate. Gas Service
19 under this Schedule is provided through the purchase or generation
20 of Renewable Natural Gas from resources [PSE] owns or contracts
21 for, that is delivered to [PSE’s] distribution system.¹²

22 Service under Supplemental Schedule 138 is, by its very terms and as intended by
23 RCW 80.28.390, voluntary on behalf of customers, and PSE cannot require any
24 customer to take service under such schedule.

¹¹ RCW 80.28.385(1) (italics added).

¹² PSE, *Supplemental Schedule 138: Voluntary Renewable Natural Gas Service – Purchase Rider*,
at 1 (Sept. 15, 2023), available at
<https://apiproxy.utc.wa.gov/cases/GetDocument?docID=8&year=2023&docketNumber=230769>.

1 **Q. Other than renewable natural gas, are other activities within the reasonable**
2 **control of PSE to assist customers of its natural gas LDC operations to**
3 **reduce greenhouse gas emissions?**

4 A. Yes. PSE's natural gas LDC operations has programs to reduce greenhouse gas
5 emissions by having customers reduce their consumption of gas or use it more
6 efficiently. In light of the enactment of the Washington Decarbonization Act for
7 Large Combination Utilities,¹³ PSE must revisit these programs because that act
8 phases out certain programs:

9 Beginning January 1, 2025, no large combination utility may offer
10 any form of rebate, incentive, or other inducement to residential
11 gas customers to purchase any natural gas appliance or equipment.
12 Until January 1, 2031, rebates and incentives for commercial and
13 industrial gas customers are not included in this requirement.
14 Rebates and incentives for electric heat pumps that include natural
15 gas backups may be offered until January 1, 2031.¹⁴

16 In addition, PSE has proposed a new natural gas decarbonization tracker in its
17 pending general rate case. The purpose of that tracker is to allow the Commission
18 and interested parties to agree upon and fund a set of programs that would
19 incentivize customers to take actions that ultimately reduce emissions.

¹³ Engrossed Substitute House Bill 1589, available at <https://lawfilesext.leg.wa.gov/biennium/2023-24/Pdf/Bills/Session%20Laws/House/1589-S.SL.pdf?q=20240421211331>.

¹⁴ *Id.* at section 8(1).

1 **Q. Please describe PSE’s concerns related to the timing for the development of a**
2 **risk-sharing mechanism in this proceeding.**

3 A. At this early stage of Climate Commitment Act implementation, it is premature to
4 design an equitable, fair, and reasonable risk-sharing mechanism. The uncertainty
5 surrounding compliance based on compliance instruments created by the Climate
6 Commitment Act mirrors other risks associated with determining a reasonable
7 pathway for Climate Commitment Act compliance, such as (i) the shifting policy
8 landscape with aspects of rulemaking still underway or future rulemaking
9 expected, (ii) price and availability of future emissions reduction technologies,
10 and (iii) linkage of Washington’s Cap-and-Invest Program with similar market-
11 based mechanisms in other jurisdictions.

12 Additionally, the Commission recently recognized the complexity associated with
13 the development of performance-based measures due to the layering of legislative
14 requirements:

15 Additional complexity exists in Washington state for developing a
16 [performance-based rates] framework with the layering of
17 legislative requirements (e.g., [multiyear rate plans], the Clean
18 Energy Transformation Act (CETA) of 2019, decarbonization
19 requirements under the Climate Commitment Act (CCA) of 2021;
20 and the Washington Decarbonization Act for Large Combination
21 Utilities of 2024 (ESHB 1589), and other factors such as: increased
22 frequency and severity of extreme weather events, geopolitical
23 issues, greater focus of equity and energy justice, and development

1 of regional electricity markets. Innovation is required to meet these
2 requirements, expectations, and developments.¹⁵

3 A better understanding of these risks is necessary prior to the development of a
4 risk-sharing mechanism, as is an understanding of the specific objectives of the
5 mechanism.

6 **V. PSE RECOMMENDS THAT THE COMMISSION**
7 **DECLINE TO ADOPT A RISK-SHARING MECHANISM**
8 **IN THIS PROCEEDING**

9 **Q. Does PSE have a recommendation for the Commission in this proceeding?**

10 A. Yes. PSE recommends that the Commission decline to adopt any risk-sharing
11 mechanism in this proceeding.

12 **Q. Is there a risk-sharing mechanism that PSE would accept?**

13 A. Yes. PSE would accept adoption of the proposed CCA RSM discussed in the
14 Prefiled Direct Testimony of Christopher T. Mickelson, Exh. CTM-1CT, and
15 provided as Exh. CTM-3C. Notwithstanding the policy and legal concerns
16 articulated in this prefiled direct testimony, PSE would accept the proposed CCA
17 RSM, if the Commission were to believe that such a mechanism is necessary to
18 effectuate the Commission's authority to ensure that PSE is managing Climate
19 Commitment Act compliance costs appropriately.

¹⁵ See Interim Policy Statement, note 3, at ¶ 17. The Commission also noted in the Interim Policy Statement that “[performance incentive mechanisms] are not always the best incentive for utility action as there may be other motivators such as legal liability or reputational risk that provide adequate intrinsic motivation not advanced by an additional financial reward or penalty.” Id. at ¶ 19.

1 **Q. When should the Commission order such a mechanism?**

2 A. For a number of reasons, the Commission should wait until the end of the current
3 Climate Commitment Act compliance period (January 1, 2023, through
4 December 31, 2026), to require any risk-sharing mechanism, such as the CCA
5 RSM proposed by PSE, for natural gas LDC utilities.

6 First, other similar economy-wide cap-and-trade programs, such as the California
7 cap-and-trade program, have used the initial years of the program as a learning
8 period. As described in the Prefiled Direct Testimony of Tricia L. Fischer,
9 Exh. TLF-1CT, PSE has been learning the complex market dynamics of the
10 Climate Commitment Act. Treating the initial compliance period as a time in
11 which PSE, interested parties, and the Commission can better understand how the
12 compliance market will function would be prudent.

13 Second, Initiative 2117,¹⁶ which would repeal the Climate Commitment Act, is an
14 initiative to the people on the ballot in the general election of November 5, 2024.
15 As described in the Prefiled Direct Testimony of Tricia L. Fischer, Exh. TLF-
16 1CT, allowance prices in the secondary markets have decreased significantly
17 since certification of the initiative. Indeed, the settlement price for Current
18 Allowances (vintage 2024) for the most recent Department of Ecology auction,
19 General Auction #4, was \$25.76 per MTCO₂e—slightly higher than the auction

¹⁶ Initiative Measure No. 2117, available at
https://www2.sos.wa.gov/_assets/elections/initiatives/finaltext_3038.pdf.

1 floor price of \$24.02 per MTCO_{2e} for such auction¹⁷ and less than half of the
2 average settlement prices of the six auctions conducted in calendar year 2026.
3 Waiting until the end of the first compliance period would allow the volatility to
4 subside.

5 Third, the Department of Ecology (representing Washington), the California Air
6 Resources Board (representing California), and Gouvernement du Québec
7 recently issued a joint statement officially expressing their interest in the potential
8 formation of a shared carbon market between the three jurisdictions.¹⁸ PSE
9 understands that linkage of the Cap-and-Invest Program with the California and
10 Quebec markets will take some time and involve some process in each
11 jurisdiction. While the timing of linkage remains unknown, the Department of
12 Ecology anticipates that the linkage process would take at least a year and that
13 “Washington’s market would not be linked until 2025 or later.”¹⁹ A linked market
14 offers many possible benefits, including the potential for lower compliance costs.

15 Accordingly, PSE recommends that the Commission decline to adopt a risk-
16 sharing mechanism for Climate Commitment Act compliance in this proceeding.
17 If the Commission were of the opinion that a risk-sharing mechanism for Climate
18 Commitment Act compliance were necessary, then PSE would recommend that

¹⁷ Washington Dept. of Ecology, *Auction #5 March 2024 Summary Report*, Pub. No. 24-14-022, at 1 (Mar. 13, 2024), available at <https://apps.ecology.wa.gov/publications/documents/2414022.pdf>.

¹⁸ See Washington Dept. of Ecology, *California, Québec and Washington Agree to Explore Linkage* (Mar. 20, 2024), available at <https://ecology.wa.gov/about-us/who-we-are/news/2024-news-stories/mar-20-shared-carbon-market>.

¹⁹ Washington Dept. of Ecology, *Focus on: Cap-and-Invest Program Linkage*, Pub. No. 23-14-004 (Jan. 2024), available at <https://apps.ecology.wa.gov/publications/documents/2314004.pdf>.

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any such mechanism become effective at the beginning of the second compliance period, which begins on January 1, 2027.

VI. CONCLUSION

Q. Does this conclude your prefiled direct testimony?

A. Yes.