

**EXH. TLF-1CT
DOCKET UG-230968
WITNESS: TRICIA L. FISCHER**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

Docket UG-230968

PUGET SOUND ENERGY,

Respondent.

PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF

TRICIA L. FISCHER

ON BEHALF OF PUGET SOUND ENERGY

**REDACTED
VERSION**

APRIL 25, 2024

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF
TRICIA L. FISCHER**

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PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF
TRICIA L. FISCHER**

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1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF**
3 **TRICIA L. FISCHER**

4 **I. INTRODUCTION**

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

7 A. My name is Tricia L. Fischer, 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 Manager, Power Origination.

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

12 A. Yes. Please see Exh. TLF-2.

13 **Q. What are your duties as Manager, Power Origination?**

14 A. As Manager, Power Origination, I supervise a team of analysts and an originator
15 in PSE’s Energy Supply Merchant department. This group is responsible for
16 managing PSE’s carbon position for both PSE’s electric and natural gas local
17 distribution company (“LDC”) operations. This includes participation in carbon
18 auctions and markets and developing procurement strategies for carbon
19 allowances. This team is also responsible for procurement of medium-term

1 capacity and renewable and non-emitting energy resources. In addition, this group
2 manages PSE’s involvement in the Western Resource Adequacy Program.

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

4 A. This prefiled direct testimony addresses PSE’s participation in (a) the Cap-and-
5 Invest Program auctions of allowances conducted by the Washington State
6 Department of Ecology during calendar year 2023 and (b) purchases of
7 allowances in the secondary market during calendar year 2023.

8 **II. PSE’S PARTICIPATION IN THE CAP-AND INVEST PROGRAM**
9 **DURING CALENDAR YEAR 2023**

10 **A. The Department of Ecology Establishes the Auction Floor Price, the Auction**
11 **Ceiling Price, and Tier 1 and Tier 2 Prices for Calendar Year 2023 in Early**
12 **December of 2022**

13 **Q. Please describe the events leading up to Auction #1 of the Cap-and-Invest**
14 **Program.**

15 A. On December 1, 2022, the Department of Ecology issued the following two
16 publications that would be relevant to all Cap-and-Invest Program general
17 auctions for calendar year 2023:

- 18 (i) the 2023 Annual Allowance Price Containment
19 Reserve (“APCR”) and Price Ceiling Notice,¹ and

¹ Washington Department of Ecology, *2023 Annual Allowance Price Containment Reserve and Price Ceiling Notice*, Pub. No. 22-02-059 (Dec. 1, 2022), available at <https://apps.ecology.wa.gov/publications/documents/2202059.pdf>.

1 (ii) the 2023 Annual Auction Floor Price Notice.²

2 The first of these publications, the 2023 Annual Allowance Price Containment
3 Reserve and Price Ceiling Notice, established

4 (i) the auction ceiling price that would be the maximum
5 allowable bid in any auction during the year;

6 (ii) the Tier 1 price that, if reached during any auction, would
7 trigger an APCR auction, and

8 (iii) the Tier 2 price at which the Department of Ecology may
9 auction containment instruments in an APCR auction.

10 **Q. What auction ceiling price did the Department of Ecology establish for**
11 **calendar year 2023?**

12 A. The Department of Ecology established an auction ceiling price of \$81.47 per
13 metric ton of carbon dioxide equivalents (“MTCO₂e”) for calendar year 2023.³

14 The Department of Ecology calculated this price by increasing a starting auction
15 ceiling price of \$72.29 per MTCO₂e by “five percent plus the rate of inflation as
16 measured by the most recently available 12 months of the consumer price index
17 for all urban consumers as of the first business day in December of 2022.”⁴ The
18 most recently available 12 months of the Consumer Price Index for All Urban
19 Consumers as of the first business day in December of 2022 was 7.7 percent,
20 resulting in an overall adjustment factor of 12.7 percent.⁵

² Washington Department of Ecology, *2023 Annual Auction Floor Price Notice*, Pub. No. 22-02-060 (Dec. 1, 2022), available at <https://apps.ecology.wa.gov/publications/documents/2202060.pdf>.

³ *2023 Annual Allowance Price Containment Reserve and Price Ceiling Notice*, note 1, at 2.

⁴ WAC 173-446-335(4).

⁵ *2023 Annual Allowance Price Containment Reserve and Price Ceiling Notice*, note 1, at 2.

1 **Q. What Tier 1 and Tier 2 prices did the Department of Ecology establish for**
2 **calendar year 2023?**

3 A. The Department of Ecology established a Tier 1 price of \$51.90 per MTCO_{2e} and
4 a Tier 2 price of \$66.68 per MTCO_{2e} for calendar year 2023.⁶ The Department of
5 Ecology calculated this price by increasing a starting Tier 1 price of \$46.05 per
6 MTCO_{2e}⁷ and a starting Tier 2 price of \$59.17 per MTCO_{2e}⁸ by “five percent
7 plus the rate of inflation as measured by the most recently available 12 months of
8 the consumer price index for all urban consumers as of the first business day in
9 December of 2022.”⁹ The most recently available 12 months of the Consumer
10 Price Index for All Urban Consumers as of the first business day in December
11 of 2022 was 7.7 percent, resulting in an overall adjustment factor of
12 12.7 percent.¹⁰

13 **Q. What auction floor price did the Department of Ecology establish for**
14 **calendar year 2023?**

15 A. The Department of Ecology established an auction floor price of \$22.20 per
16 MTCO_{2e} for calendar year 2023.¹¹ The Department of Ecology calculated this
17 price by increasing a starting auction floor price of \$19.70 per MTCO_{2e} by “five
18 percent plus the rate of inflation as measured by the most recently available 12

⁶ 2023 Annual Allowance Price Containment Reserve and Price Ceiling Notice, note 1, at 2.

⁷ WAC 173-446-370(4)(b)(i).

⁸ WAC 173-446-370(4)(b)(ii).

⁹ WAC 173-446-370(4)(b)(i) and (ii).

¹⁰ 2023 Annual Allowance Price Containment Reserve and Price Ceiling Notice, note 1, at 1.

¹¹ 2023 Annual Auction Floor Price Notice, note 2, at 1.

1 months of the consumer price index for all urban consumers as of the first
2 business day in December of 2022.”¹² The most recently available 12 months of
3 the Consumer Price Index for All Urban Consumers as of the first business day in
4 December of 2022 was 7.7 percent, resulting in an overall adjustment factor
5 of 12.7 percent.¹³

6 **B. General Auction #1 on February 28, 2023**

7 **Q. Please describe the events leading up to General Auction #1.**

8 A. On December 20, 2022, the Department of Ecology issued Auction Notice #1,¹⁴
9 in which the agency announced that the General Auction #1 would occur on
10 February 28, 2023.¹⁵ Auction Notice #1 notified potential bidders that the
11 Department of Ecology would auction 6,185,222 Current Allowances
12 (2023 vintage)¹⁶ and that bid guarantees would be due on February 16, 2023.¹⁷

13 In preparation for the [REDACTED], PSE considered [REDACTED]. Please see
14 Exh. TLF-3C for [REDACTED] considered by PSE for [REDACTED]. The
15 first strategy was to [REDACTED] t
16 [REDACTED]
17 [REDACTED]. The second strategy was to [REDACTED].

¹² WAC 173-446-335(1).

¹³ 2023 Annual Auction Floor Price Notice, note 2, at 1.

¹⁴ Washington Dept. of Ecology, Auction Notice #1, Pub. No. 22-02-064 (Dec. 20, 2022), available at <https://apps.ecology.wa.gov/publications/documents/2202064.pdf>.

¹⁵ See id. at 1.

¹⁶ See id. at 2.

¹⁷ See id. at 4.

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The third strategy option was to [REDACTED]
[REDACTED] t.

On January 27, 2023, the PSE Energy Supply team presented a recommendation for [REDACTED] to PSE’s Energy Management Committee (“EMC”) with respect to the [REDACTED]. Please see Exh. TLF-4C for a copy of the EMC presentation dated January 27, 2023. In that presentation, the Energy Supply team estimated that PSE’s end of year carbon position for natural gas LDC operations would be [REDACTED] MTCO_{2e}.¹⁸ The recommendation was for PSE to [REDACTED]
[REDACTED]
[REDACTED].¹⁹

[REDACTED]
[REDACTED] [REDACTED]
[REDACTED]
[REDACTED]²¹ PSE’s officers approved the third strategy, with modifications. Please see Exh. TLF-5C for the approved [REDACTED]

¹⁸ See Exh. TLF-3C at 3.

¹⁹ See *id.* at 2.

²⁰ The Nodal Exchange a derivatives exchange providing price, credit, and liquidity risk management to participants in the North American commodities markets.

²¹ The quotient of PSE’s budget of [REDACTED] divided by [REDACTED] allowances (i.e., [REDACTED] : [REDACTED] / [REDACTED] allowances = [REDACTED] 2/allowance.

1 **Q. What were the results of General Auction #1?**

2 A. On March 7, 2023, the Department of Ecology published a summary report for
3 General Auction #1,²² which reported that General Auction #1 resulted in the
4 auction of 6,185,222 Current Allowances (vintage 2023)²³ at a settlement price of
5 \$48.50 per MTCO_{2e}.²⁴

6 **Q. Was PSE successful in [REDACTED] ?**

7 A. Yes. PSE was able to [REDACTED] in
8 [REDACTED] at the [REDACTED].

9 **C. General Auction #2 on May 31, 2023**

10 **Q. Please describe the events leading up to General Auction #2.**

11 A. On March 31, 2023, the Department of Ecology issued Auction Notice #2,²⁵ in
12 which the agency announced that General Auction #2 would occur on May 31,
13 2023.²⁶ Auction Notice #2 notified potential bidders that the Department of
14 Ecology would auction 8,585,000 Current Allowances (2023 vintage)

²² Washington Dept. of Ecology, *Auction #1 February 2023 Summary Report*, Pub. No. 23-02-022 (Mar. 7, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302022.pdf>.

²³ *See id.* at 2.

²⁴ *See id.* at 1.

²⁵ Washington Dept. of Ecology, *Auction Notice #2*, Pub. No. 23-02-029 (Mar. 31, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302029.pdf>.

²⁶ *See id.* at 1.

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and 2,450,000 Advance Allowances (2026 vintage).²⁷ Bid guarantees would be due on May 19, 2023.²⁸

PSE considered [REDACTED]. Please see Exh. TLF-6C for [REDACTED]

The first strategy [REDACTED] was to [REDACTED]
[REDACTED]²⁹ The thought behind this strategy was that [REDACTED]
[REDACTED]
[REDACTED]³⁰ [REDACTED]
[REDACTED]

(i) [REDACTED]

(ii) [REDACTED]³¹

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

²⁷ Auction Notice #2, note 25, at 2.
²⁸ See *id.* at 4.
²⁹ See generally Exh. TLF-6C.
³⁰ See *id.*
³¹ See *id.*
³² PSE would receive 4,906,163 no cost allowances from the Department of Ecology. [REDACTED]

[REDACTED]

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[REDACTED]
[REDACTED]³³ [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]³⁴

The second strategy [REDACTED] was to [REDACTED]
[REDACTED]³⁵
[REDACTED]
[REDACTED]³⁶ [REDACTED],
[REDACTED]
[REDACTED]³⁷

The third strategy considered by PSE [REDACTED] was to [REDACTED]
(i) [REDACTED] and [REDACTED]
(ii) [REDACTED]
(a) [REDACTED], and [REDACTED]
(b) [REDACTED]³⁸

³³ See generally Exh. TLF-6C.
³⁴ See id.
³⁵ See id.
³⁶ See id.
³⁷ See id.
³⁸ See id.

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[REDACTED]

[REDACTED] 39

With respect to the [REDACTED] the Energy Supply team recommended that

[REDACTED]

[REDACTED] 40

On April 27, 2023, the Energy Supply team presented recommendations to the EMC for [REDACTED]. Please see Exh. TLF-7C for the presentation to the EMC, dated April 27, 2023, and Exh. TLF-8C for documentation regarding the EMC approval.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] 41 [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] 42

³⁹ See generally Exh. TLF-6C.
⁴⁰ See id.
⁴¹ See Exh. TLF-8C, at 1.
⁴² See Exh. TLF-6C at 2.

REDACTED
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1 Please see Exh. TLF-9C for a summary of the approved [REDACTED]
2 [REDACTED]

3 **Q. What were the results of General Auction #2?**

4 A. On June 7, 2023, the Department of Ecology published a summary report for
5 General Auction #2,⁴³ which reported that General Auction #2 resulted in the
6 auction of

- 7 (i) 8,585,000 Current Allowances (vintage 2023)⁴⁴ at a
8 settlement price of \$56.01 per MTCO_{2e},⁴⁵ and
9 (ii) 2,450,000 Advance Allowances (vintage 2026)⁴⁶ at a
10 settlement price of \$31.12 per MTCO_{2e}.⁴⁷

11 **Q. Was PSE [REDACTED] ?**

12 A. Yes. PSE [REDACTED] in [REDACTED]
13 [REDACTED] at the [REDACTED]
14 [REDACTED].

15 **Q. Was the settlement price of \$56.01 per MTCO_{2e} for the Current Auction
16 significant?**

17 A. Yes. The Current Auction settlement price of \$56.01 per MTCO_{2e} was significant
18 because it was higher than the Tier 1 price of \$51.90 per MTCO_{2e}, thereby

⁴³ Washington Dept. of Ecology, *Auction #2 May 2023 Summary Report*, Pub. No. 23-02-057 (June 7, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302057.pdf>

⁴⁴ *See id.* at 2.

⁴⁵ *See id.* at 1.

⁴⁶ *See id.* at 2.

⁴⁷ *See id.* at 1.

1 triggering a need for the Department of Ecology to conduct an APCR auction in
2 the third quarter of 2023.

3 **D. Allocation of No Cost Allowances to Natural Gas LDC Utilities**

4 **Q. Did the Department of Ecology establish a schedule of allocation of no cost**
5 **allowances for PSE’s natural gas LDC operations?**

6 A. Yes. In June 2023 (after the first two general auctions), the Department of
7 Ecology issued a schedule of allocation of no cost allowances to all natural
8 gas LDC utilities,⁴⁸ including an allocation for customers of PSE’s natural gas
9 LDC operations. The schedule provided PSE with the following allowances for
10 the four years of the first compliance period for the natural gas LDC operations:

**Table 1. Allowance Allocations to
PSE for the First Compliance Period for
PSE’s Natural Gas LDC Operations⁴⁹**

| Calendar Year | No Cost Allowances Allocated to PSE for Natural Gas LDC Operations |
|--------------------------|---|
| 2023 | 4,906,163 |
| 2024 | 4,536,882 |
| 2025 | 4,167,601 |
| 2026 | 3,798,320 |

⁴⁸ Washington Department of Ecology, *Allowance Allocation to Natural Gas Utilities for the First Compliance Period*, Pub. No. 23-02-074 (June 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302074.pdf>.

⁴⁹ Washington Department of Ecology, *Allowance Allocation to Natural Gas Utilities for the First Compliance Period*, Pub. No. 23-02-074 (June 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302074.pdf>.

1 **Q. Is it possible to calculate the allowance baseline for PSE from the schedule of**
2 **allocation of no cost allowances for natural gas LDC operations provided in**
3 **Table 1 above?**

4 A. Yes. It is possible to calculate the allowance baseline for PSE's natural gas LDC
5 operations from the schedule of allocation of no cost allowances provided in
6 Table 1 above. As mentioned in the Prefiled Direct Testimony of Jason Kuzma,
7 Exh. JK-1T, the applicable regulations require the Department of Ecology to
8 distribute no cost allowances to natural gas LDC utilities for calendar year 2023
9 in a total amount that is equal to 93 percent of the natural gas LDC utility's
10 allocation baseline calculated for calendar years 2015 through 2019.⁵⁰ Therefore,
11 one can calculate the allocation baseline for PSE's natural gas LDC operations by
12 dividing the 4,906,163 allowances allocated to PSE's natural gas LDC operations
13 for calendar year by 0.93:

$$0.93x = 4,906,163$$

$$x = \frac{4,906,163}{0.93}$$

$$x = 5,275,444.08602 \text{ or } 5,275,444 \text{ MTCO}_2\text{e}$$

17 With this allocation baseline, it is possible to project the allocation of no cost
18 allowances for PSE's natural gas LDC operations for future compliance periods.
19 Table 2 below provides the no cost allowances that the Department of Ecology

⁵⁰ See WAC 173-446-240(2)(a)(i).

1 should allocate for PSE’s natural gas LDC operations, absent revision, for the first
 2 three compliance periods.

**Table 2. Projected Allocation of
 No Cost Allowances for
 PSE’s Natural Gas LDC Operations for the
 First Three Compliance Periods**

| | Calendar Year | No Cost Allowances Allocated for PSE’s Natural Gas LDC Operations |
|--------------------------------|--------------------------|--|
| First Compliance Period | 2023 | 4,906,163 |
| | 2024 | 4,536,882 |
| | 2025 | 4,167,601 |
| | 2026 | 3,798,320 |
| Second Compliance Period | 2027 | 3,429,039 |
| | 2028 | 3,059,758 |
| | 2029 | 2,690,477 |
| | 2030 | 2,321,196 |
| Third Compliance Period | 2031 | 2,226,238 |
| | 2032 | 2,131,280 |
| | 2033 | 2,036,322 |
| | 2034 | 1,941,364 |

3 Please see Exh. TLF-10 for the projected allocation of no cost allowances through
 4 calendar year 2049 for the benefit of customers of PSE’s natural gas LDC
 5 operations.

1 **E. APCR Auction #1 on August 9, 2023**

2 **Q. Please describe the events leading up to APCR Auction #1.**

3 A. As mentioned previously, the Department of Ecology published results of General
4 Auction #2 on June 7, 2023.⁵¹ Prices in the secondary market fell from pre-
5 auction prices in the mid-\$60s per MTCO_{2e} to a price of \$56 per MTCO_{2e}, near
6 the settlement price for the Current Auction.

7 Just two days later, the Department of Ecology issued APCR Auction Notice #1
8 on June 9, 2023,⁵² in which the agency announced that APCR Auction #1 would
9 occur on August 9, 2023.⁵³ APCR Auction Notice #1 notified potential bidders
10 that the Department of Ecology would auction

- 11 (i) 527,000 APCR allowances at the Tier 1 price of \$51.90 per
12 MTCO_{2e}; and
13 (ii) 527,000 allowances at the Tier 2 price of \$66.68 per
14 MTCO_{2e}.⁵⁴

15 Bid guarantees would be due on July 28, 2023.⁵⁵

16 APCR Auction Notice #1 surprised the market. Whereas prices for allowances in
17 the secondary market dropped from the mid-\$60 per MTCO_{2e} to \$56 per
18 MTCO_{2e} after publication of the results of General Auction #2, prices in the

⁵¹ See *Auction #2 May 2023 Summary Report*, note 43.

⁵² Washington Dept. of Ecology, *Allowance Price Containment Reserve (APCR) Auction Notice*,
Pub. No. 23-02-067 (June 9, 2023), available at
<https://apps.ecology.wa.gov/publications/documents/2302067.pdf>.

⁵³ See *id.* at 1.

⁵⁴ See *id.* at 1.

⁵⁵ See *id.* at 3.

1 secondary market immediately spiked to over \$66 per MTCO_{2e} after publication
2 of APCR Auction Notice #1.

3 **Q. Why did the publication of APCR Auction Notice #1 surprise the market and**
4 **cause secondary markets to increase by over \$10 per MTCO_{2e}?**

5 A. Market participants, including PSE, expected the Department of Ecology to
6 implement the APCR Auction in the same or similar manner as similar auction
7 price containment reserve auctions in the California and Quebec cap-and-trade
8 market programs. To do so, the Department of Ecology would

- 9 (i) offer the full volume of APCR allowances reserved for the
10 first compliance period at APCR Auction #1, and
11 (ii) exhaust the APCR allowances priced at the Tier 1 price
12 prior to offering the APCR allowances priced at the Tier 2
13 price.

14 The Department of Ecology's decision to offer such a small volume of APCR
15 allowances at the first APCR Auction #1 and split this limited volume into
16 separate Tier 1 and Tier 2 sales created an expectation that the auction would
17 result in the sale of APCR allowances at Tier 2 prices. This drove the secondary
18 market prices to spike above the Tier 2 price.

19 **Q. How did PSE consider its options with respect to [REDACTED]**
20 **[REDACTED]?**

21 A. PSE considered three different [REDACTED] Please see
22 Exh. TLF-11C for [REDACTED].

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The first strategy was for [REDACTED]
[REDACTED]
[REDACTED].⁵⁶ The second strategy was to [REDACTED]
[REDACTED]
[REDACTED].⁵⁷ The third strategy was [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].⁵⁸ [REDACTED]
[REDACTED]
[REDACTED].

The PSE Energy Supply team presented recommendations for [REDACTED]
[REDACTED] to the EMC on July 19, 2023. Please see Exh. TLF-12C for a
copy of the presentation to the EMC, dated July 19, 2023. The EMC approved the
first strategy, in which [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].

⁵⁶ See Exh. TLF-11C at 1-2.
⁵⁷ See Exh. TLF-11C at 2.
⁵⁸ See *id.*

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Q. Did the Department of Ecology provide any additional information regarding the APCR Auction #1?

A. Yes. On August 7, 2023, just two days prior to APCR Auction #1 on August 9, 2023, PSE received an email from the Department of Ecology clarifying the interim rules for APCR auctions. In that email, the Department of Ecology stated that bid volumes would be limited for each registered entity and group of registered entities. This clarification meant that [REDACTED] rather than the electric and natural gas LDC entities each bidding a volume of 527,000 allowances. PSE would need to [REDACTED]

Q. Given this late-breaking clarification in the interim rules for APCR Auction #1, what [REDACTED]?

A. For [REDACTED], PSE [REDACTED] for

- (i) [REDACTED] and
- (ii) [REDACTED]

1 **Q. What were the results of APCR Auction #1?**

2 A. On August 16, 2023, the Department of Ecology published a summary report for
3 APCR Auction #1,⁵⁹ which reported that the auction resulted in the auction of

4 (i) 527,000 APCR allowances at the Tier 1 price of \$51.90 per
5 MTCO_{2e};⁶⁰ and

6 (ii) 527,000 APCR allowances at the Tier 2 price of \$66.68 per
7 MTCO_{2e}.⁶¹

8 **Q. Was [REDACTED]?**

9 A. Yes. In [REDACTED] PSE [REDACTED]

10 (i) [REDACTED]
11 [REDACTED]

12 (ii) [REDACTED]
13 [REDACTED].

14 **F. General Auction #3 on August 30, 2023**

15 **Q. Please describe the events leading up to General Auction #3.**

16 A. On June 30, 2023, the Department of Ecology issued Auction Notice #3,⁶² in
17 which the agency announced that General Auction #3 would occur on August 30,
18 2023.⁶³ Auction Notice #3 notified potential bidders that the Department of

⁵⁹ Washington Dept. of Ecology, *APCR Auction #1 August 2023 Summary Report*, Pub. No. 23-02-072 (Aug. 16, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302072.pdf>.

⁶⁰ *See id.* at 2.

⁶¹ *See id.*

⁶² Washington Dept. of Ecology, *Auction Notice #3*, Pub. No. 23-02-059 (June 30, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302059.pdf>.

⁶³ *See id.* at 1.

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Ecology would auction 8,585,000 Current Allowances (2023 vintage).⁶⁴

Bid guarantees would be due on August 18, 2023.⁶⁵

PSE considered [REDACTED]. The significant level of participation in APCR Auction #1 resulted in an increase in the secondary market prices for Current Allowances (vintage 2023).

Based on this new information, the PSE Energy Supply team recommended two

[REDACTED] The first option was [REDACTED]

[REDACTED]. The second option was [REDACTED]

(i) [REDACTED]

(ii) [REDACTED] and [REDACTED]

(iii) [REDACTED]

Please see Exh. TLF-13C for [REDACTED]

On August 14, 2023, the PSE Energy Supply team presented the two recommended scenarios for approval. Please see Exh. TLF-14C for the EMC

⁶⁴ See Auction Notice #3, note 62, at 2.
⁶⁵ See id. at 4.

1 presentation, dated August 14, 2023. At that meeting, the officers approved the
2 second strategy. Please see Exh. TLF-15C for a summary of PSE's approved [REDACTED]
3 [REDACTED] Please see Exh. TLF-16C for documentation
4 regarding [REDACTED]

5 **Q. Was PSE able to [REDACTED] for the**
6 **benefit of customers of PSE's natural gas LDC operations?**

7 A. Yes. PSE was able to [REDACTED]
8 [REDACTED] for the benefit of customers of PSE's natural gas LDC operations. To
9 enable natural gas LDC utilities to [REDACTED], the Department of
10 Ecology waived its 75-day notice requirement for [REDACTED].

11 **Q. What were the results of General Auction #3?**

12 A. On September 6, 2023, the Department of Ecology published a summary report
13 for General Auction #3,⁶⁶ which reported that General Auction #3 resulted in the
14 auction of

- 15 (i) 2,927,349 no cost allowances⁶⁷ at a settlement price
16 of \$63.03 per MTCO₂e,⁶⁸ and
- 17 (ii) 5,657,651 Current Allowances (vintage 2023)⁶⁹ at a
18 settlement price of \$63.03 per MTCO₂e.⁷⁰

⁶⁶ Washington Dept. of Ecology, *Auction #3 August 2023 Summary Report*, Pub. No. 23-02-060 (Sept. 6, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302060.pdf>.
⁶⁷ See *id.* at 2.
⁶⁸ See *id.* at 1.
⁶⁹ See *Auction #3 August 2023 Summary Report*, note 66, at 2.
⁷⁰ See *id.* at 1.

1 Q. Was PSE successful in [REDACTED] ?

2 A. Yes. PSE [REDACTED] in [REDACTED]
3 [REDACTED] at [REDACTED]. The
4 Current Auction settlement price of \$63.03 per MTCO_{2e} for General Auction #3
5 exceeded the Tier 1 price of \$51.90 per MTCO_{2e}, thereby triggering the
6 requirement that the Department of Ecology conduct a second APCR auction in
7 the fourth quarter of 2023.

8 **G. APCR Auction #2 on November 8, 2023**

9 Q. Please describe the events leading up to APCR Auction #2.

10 A. On September 8, 2023, the Department of Ecology issued APCR Auction
11 Notice #2,⁷¹ in which the agency announced that APCR Auction #2 would occur
12 on November 8, 2023.⁷² APCR Auction Notice #2 notified potential bidders that
13 the Department of Ecology would auction 5,000,000 allowances at the Tier 1
14 price of \$51.90 per MTCO_{2e}.⁷³ Bid guarantees would be due on October 27,
15 2023.⁷⁴ APCR Auction Notice #2 announced a change in implementation
16 because, unlike APCR Auction #1, the Department of Ecology would offer all
17 APCR Allowances in APCR Auction #1 at the Tier 1 price. This change in

⁷¹ Washington Dept. of Ecology, *Allowance Price Containment Reserve (APCR) Auction Notice*,
Pub. No. 23-02-100 (Sept. 8, 2023), available at
<https://apps.ecology.wa.gov/publications/documents/2302100.pdf>.

⁷² See *id.* at 1.

⁷³ See *id.*

⁷⁴ See *id.* at 3.

1 implementation caused secondary market prices for Current Allowances
2 (2023 vintage) to drop dramatically.⁷⁵

3 The PSE Energy Supply team recommended a strategy in which PSE would

4 [REDACTED]

5 [REDACTED] Please see Exh. TLF-17C for a

6 copy of the EMC presentation, dated October 3, 2023. Based on the

7 recommendation of the PSE Energy Supply Team, the EMC approved PSE to

8 [REDACTED]

9 [REDACTED].

10 **Q. What were the results of APCR Auction #2?**

11 A. On June 7, 2023, the Department of Ecology published a summary report for
12 General Auction #2,⁷⁶ which reported that APCR Auction #2 resulted in the
13 auction of 5,000,000 APCR Allowances at the Tier 1 settlement price of \$51.90
14 per MTCO₂e.⁷⁷

⁷⁵ See, e.g., Exh. TLF-21 at 1.
⁷⁶ Washington Dept. of Ecology, *APCR Auction #2 November 2023 Summary Report*, Pub. No. 23-02-101 (Nov. 15, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302101.pdf>.
⁷⁷ See *id.* at 2.

1 Q. Was PSE [REDACTED]?

2 A. Yes. PSE [REDACTED]
3 [REDACTED] The Department of
4 Ecology [REDACTED].

5 **H. General Auction #4 on December 6, 2023**

6 Q. Please describe the events leading up to General Auction #4.

7 A. On October 6, 2023, the Department of Ecology issued Auction Notice #4,⁷⁸ in
8 which the agency announced that General Auction #4 would occur on
9 December 6, 2023.⁷⁹ The original Auction Notice #4 notified potential bidders
10 that the Department of Ecology would auction 7,178,648 Current Allowances
11 (2023 vintage) and 2,449,760 Advance Allowances (2026 vintage).⁸⁰
12 Bid guarantees would be due on November 24, 2023.⁸¹

13 On November 17, 2023, the PSE Energy Supply team recommended to the EMC
14 that PSE [REDACTED]
15 [REDACTED]
16 [REDACTED] Please see Exh. TLF-18C for [REDACTED]

⁷⁸ Washington Dept. of Ecology, *Auction Notice #4*, Pub. No. 23-02-062 (Oct 6, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302062.pdf>.

⁷⁹ See *id.* at 1.

⁸⁰ Washington Dept. of Ecology, *Auction Notice #4*, Pub. No. 23-02-062 (Oct 6, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302062.pdf>.

⁸¹ See *id.* at 4.

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[REDACTED] Please see Exh. TLF-19C for a copy of the presentation to the EMC, dated November 17, 2023.

The Energy Supply Team predicated its recommendation for [REDACTED] on [REDACTED] At the time, PSE was able [REDACTED]

[REDACTED].⁸² With respect to bidding in the [REDACTED], PSE wanted [REDACTED]
[REDACTED]
[REDACTED] r
[REDACTED].⁸³

PSE was also aware that the Department of Ecology intended to pursue linkage with the California and Quebec cap-and-trade programs [REDACTED]

[REDACTED]⁸⁴ Linkage, however, would not likely occur until calendar years 2026 or 2027. [REDACTED]

[REDACTED]⁸⁵ Therefore, the recommendation to the EMC was that PSE [REDACTED] nces

[REDACTED]⁸⁶

⁸² See Exh. TLF-19C at 4.
⁸³ See id.
⁸⁴ See Exh. TLF-19C, at 7.
⁸⁵ See id.
⁸⁶ See id. at 8.

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1 The EMC approved the recommended [REDACTED]
2 [REDACTED] Please see Exh. TLF-20C for a summary of
3 PSE's approved [REDACTED]

4 **Q. Was PSE able to [REDACTED]?**

5 A. Yes. PSE was able to [REDACTED]
6 [REDACTED]

7 **Q. What were the results of General Auction #4?**

8 A. On September 6, 2023, the Department of Ecology published a summary report
9 for General Auction #3,⁸⁷ which reported that General Auction #3 resulted in the
10 auction of

- 11 (i) 3,699,891 consigned Current Allowances (vintage 2023)⁸⁸
12 at a settlement price of \$51.89 per MTCO_{2e};⁸⁹
- 13 (ii) 3,442,255 Current Allowances (vintage 2023)⁹⁰ at a
14 settlement price of \$51.89 per MTCO_{2e},⁹¹ and
- 15 (iii) 2,449,760 Advance Allowances (vintage 2026)⁹² at a
16 settlement price of \$45.00 per MTCO_{2e}.⁹³

⁸⁷ Washington Dept. of Ecology, *Auction #4 December 2023 Summary Report*, Pub. No. 23-02-063 (Dec. 13, 2023), available at <https://apps.ecology.wa.gov/publications/documents/2302063.pdf>.

⁸⁸ *See id.* at 2.

⁸⁹ *See id.* at 1.

⁹⁰ *See id.* at 2.

⁹¹ *See id.* at 1.

⁹² *See id.* at 2.

⁹³ *See id.* at 1.

1 Q. Was PSE successful in [REDACTED] ?

2 A. Yes. [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED].

8 Notwithstanding this challenge, PSE [REDACTED] in
9 [REDACTED] at [REDACTED]
10 [REDACTED] Unfortunately, [REDACTED]
11 [REDACTED] er
12 [REDACTED]

13 **I. Recap and Lessons Learned from Calendar Year 2023**

14 Q. How many [REDACTED] did PSE [REDACTED] during calendar year 2023?

15 A. During calendar year 2023, PSE was able [REDACTED] to
16 meet the projected compliance obligation for calendar year 2023.

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Table 3. [REDACTED] by PSE
During Calendar Year 2023

| Source | Allowance Vintage | Purchased Quantity |
|--------------|----------------------|-----------------------|
| [REDACTED] | [REDACTED] | [REDACTED] |
| Total | N/A | [REDACTED] |

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Q. Does PSE project that these allowances will satisfy the annual compliance obligation under the rules of the Department of Ecology?

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A. Yes. PSE has estimated the covered emissions of customers of its natural gas LDC operations for calendar year 2023 to be [REDACTED] MTCO₂e. As of December 31, 2023, PSE had [REDACTED] allowances allocated to natural gas LDC operations.⁹⁴ Therefore, PSE has [REDACTED] to cover about [REDACTED] percent of the estimated covered emissions of customers of its natural gas LDC operations for calendar year 2023, which is [REDACTED] the 30 percent required for annual compliance under the rules of the Department of Ecology.

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⁹⁴ The sum of (i) the [REDACTED] allowances acquired in calendar year 2023 as shown in Table 3, plus (ii) the 1,717,157 no cost allowances remaining after consignment of 3,189,006 no cost allowances in General Auctions #3 and #4.

1 **Q. Are there any lessons learned from PSE's participation in the first year of**
2 **the Cap-and-Trade Program?**

3 A. Yes. PSE learned that the secondary market for allowances is volatile and
4 sensitive to any information provided by the Department of Ecology. PSE also
5 learned that the auctions are highly competitive and that there are a good number
6 of financial institutions participating in auctions. Prices in the secondary market
7 ranged from a low price of \$42.00 per MTCO_{2e} to a high price of \$70.50 per
8 MTCO_{2e}. Please see Exh. TLF-21 for prices for Current Allowances (2023
9 vintage) in the secondary market during calendar year 2023. This volatility may
10 reflect supply and demand given the general structure of the Cap-and-Invest
11 Program, but it may also reflect general uncertainty associated with a
12 comprehensive market-based mechanism to reduce greenhouse gas emissions.

13 Another lesson learned from calendar year 2023 was that activity in the secondary
14 market tends to be most active around the time of each auction. Similar to
15 auctions in the California and Quebec cap-and-trade market programs, prices for
16 Current Allowances (vintage 2023) in the secondary market tended to move in
17 response to auction results and program changes. Please see page one of
18 Exh. TLF-21 for a graphical representation of prices for Current Allowances
19 (vintage 2023) in the secondary market.

20 [REDACTED]

21 [REDACTED]. Thus far, PSE has discovered that [REDACTED]

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[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] At this time, however, it is too early to tell whether this approach [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Q. Has PSE considered [REDACTED]
[REDACTED]

A. Yes. PSE has considered [REDACTED]
[REDACTED]. On one hand, such
a strategy may [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

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[REDACTED]

[REDACTED].

[REDACTED]

[REDACTED]. [REDACTED] t

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Please see the Prefiled Direct Testimony of Jason Kuzma, Exh. JK-1T, for a discussion of compliance APCR auctions.

III. CONCLUSION

Q. Does this conclude your prefiled direct testimony?

A. Yes.

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