Agenda Date: April 22, 2021
Item Number: A4

Docket: UG-210194
Company: Puget Sound Energy

Staff: Andrew Rector, Regulatory Analyst

Recommendation

Enter a complaint and order:
- Suspending the tariff; and
- Directing the company to file a full set of workpapers that supports each and every element required to develop the rate and amount of renewable natural gas purchased per block.

Background

On March 22, 2021, Puget Sound Energy (PSE or company) filed with the Washington Utilities and Transportation Commission (commission) the first voluntary renewable natural gas (RNG) program tariff. The filing was made pursuant to RCW 80.28.390, which requires all natural gas companies to "offer by tariff a voluntary renewable natural gas service available to all customers to replace any portion of the natural gas that would otherwise be provided by the gas company."[1]

PSE is the first of the state's four natural gas local distribution companies (LDCs) to propose such an offering. Commission staff (staff) first began discussing this filing with the company in December 2020. That discussion has been informed by the RNG policy statement (policy statement) that the commission issued that same month.[2] The policy statement discusses five broad policy categories related to RNG programs, most of which are addressed in the company's filing:

- General RNG utility program design
- RNG quality standards and pipeline safety requirements
- RNG environmental attributes
- RNG attribute tracking and verification
- Banking criteria for RNG attributes[3]

Discussion

Program Design

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[1] RCW 80.28.390.
[2] "Report and Policy Statement on Investigation on Renewable Natural Gas Programmatic Design and Pipeline Safety Standards", December 16, 2020. Docket U-190818.
[3] *Id.*, at 14. The filing makes no changes to the gas quality standards already included in the tariff.

PSE has structured its program to be available to all residential, commercial, industrial, and interruptible customers. Participation in the program allows purchasing one or more blocks of RNG. Each block represents 3.1 therms of RNG, and costs $5 per block. Customers will sign up for the service on PSE's website, and can cancel at any time. As directed by the policy statement,[4] a customer will see a line item on their monthly billing statement showing the charge for their requested blocks of RNG, as well as a line item showing a credit for the avoided cost of an equivalent amount of conventional natural gas. This service would commence on October 1, 2021, giving the company time to implement the program.

Tracking, Verification, and Banking of Environmental Attributes

In its policy statement, the commission recognized a need to use Renewable Thermal Certificates (RTCs) to track "the chain of custody of the environmental attributes of any RNG acquired" as part of each LDCs voluntary program.[5] The commission also expressed a strong desire for all four LDCs to use the same tracking and verification system, and specifically mentioned the Midwest Renewable Energy Tracking System (M-RETS) as a preferred tracking system.[6] Accordingly, PSE has proposed using M-RETS to track its RTCs and verify the environmental attributes thereof. The company also plans to use M-RETS to calculate the carbon intensity of its RNG, and comply with banking criteria, two topics which are addressed in the policy statement as well.[7]

Annual Reporting to the Commission

While not specifically discussed in the policy statement nor mandated by legislation, staff believes that a reporting mechanism for the programs LDCs undertake to fulfill RCW 80.28.390 should be included. Absent such a requirement, LDCs would not be able to demonstrate that they are following the policy statement's carbon intensity and banking provisions. PSE has indicated a willingness to perform such reporting through its purchased gas adjustment (PGA) mechanism. Staff will work with all four LDCs in the coming months to create an appropriate reporting framework.

Treatment of Start-Up Costs

Staff and the company disagree regarding the treatment of certain start-up costs that the company claims it must incur to offer the program, specifically information technology (IT) costs. PSE states that it must invest approximately $1.5 million in IT infrastructure prior to service commencing under this tariff to allow customers to sign up for the program; configure its billing system; track enrollment; automate communication with customers; and integrate its systems. The company asserts that it should recover these costs from all customers in its next rate case.

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[4] *Id*., at 28.
[5] *Id*., at 43.
[6] *Id*., at 43, 46.
[7] *Id*., at 35-39, 47-49.

The company's tariff, in fact, contains language specifying that it will "recover the initial information technology start-up costs…in its next general rate case."[8]

PSE's Argument About Start-Up Costs

PSE recognizes that the policy statement requires all costs to be borne by participants in this voluntary program but disagrees.[9] The company makes several arguments against the conclusions of the policy statement in its cover letter. Critically, the company claims its proposal is consistent with cost causation principles. PSE states that because the legislation caused PSE to incur the costs to offer this service, and all customers are eligible to participate, all customers should bear the costs to implement the program.[10]

The company goes on to reference the statement of legislative finding for RCW 80.28.390, which states that "[r]enewable natural gas provides benefits to natural gas utility customers and to the public."[11] It also points to the State Energy Strategy, updated in December 2020, which mentions RNG as a pathway to reducing greenhouse gas (GHG) emissions from the natural gas sector.[12] To PSE, these statements establish RNG's benefits to all Washington ratepayers, not just participants in this voluntary program. The company has therefore excluded the IT costs from this tariff in favor of including them in its next rate case.[13]

PSE accurately points out that requiring program participants to bear the start-up costs for this program would increase administrative costs and decrease the amount of RNG that participants would receive for each block purchased at the proposed price. PSE argues that this would reduce interest in the program and therefore hinder further development of RNG in the state, inconsistent with the statement of legislative finding mentioned above.[14]

In its discussion, PSE provides some examples of different voluntary programs, required by law and approved by the commission, for which all customers pay, regardless of whether they participate. These examples include conservation and net metering. The company also notes that the commission, in its order in dockets UE-180860 and UG-180861, acknowledged that the $15 bimonthly charge for manual meter reading was fair and reasonable, even though it did not represent the full cost of that service.[15] However, the company makes no argument that such a result would be appropriate here.

Staff's Response

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[8] UG-210194, initial tariff, filed March 22, 2021, page 4, paragraph 1.
[9] UG-210194, cover letter, filed March 22, 2021, page 3, paragraph 1 ("PSE recognizes…").
[10] *Id*., at page 3, paragraph 4 ("Finally, PSE believes…").
[11] Laws of 2019, ch. 285, § 12, codified as a statutory note to RCW 80.28.380.
[12] Washington State Department of Commerce, "Washington 2021 State Energy Strategy", 82.
[13] UG-210194, cover letter, filed March 22, 2021, page 3, paragraph 1 ("Further, the development…").
[14] *Id*., page 3, paragraph 1 ("If these costs…").
[15] UE-180860 and UG-180861, Order 01, at 20.

Staff believes the policy statement is clear that program participants should bear the start-up costs in question. Paragraph 29 of the policy statement (which was published just four months ago) states:

> "Consistent with existing Commission and ratemaking policy related to cost causation, cross-subsidization and voluntary alternative energy offerings, *all costs related to voluntary RNG programs must be borne by customers selecting such voluntary service*" (emphasis added).

Staff interprets this statement to mean that it is the participating customers that cause the costs, not the enabling legislation. As noted in the policy statement, there is precedent for strong ring-fencing around voluntary program costs: RCW 19.29A.090, the law governing the state's voluntary electric alternative energy resources, states that costs associated with such programs "may not be shifted to customers who have not chosen such an option." While RCW 19.28.390 does not include similar ring-fencing language, staff believes the cost causation principle found in RCW 19.29A is appropriately applied here.

The company's attempt to apply the principle of cost causation is incorrect. The principle of cost causation requires that costs should be paid by those who cause them to be incurred.[16] The cost causation principle directly applies to decisions about who should bear the costs. Taking PSE's argument that the legislature is the cost-causer to its logical conclusion, PSE should send a bill to the legislature for the $1.5 million in start-up costs. In the context of setting rates for customers, we compare the costs caused by various customer classes. In this case, participants in the voluntary RNG program are the cost-causers and should pay the start-up costs.

Staff is unpersuaded by the company's argument that the start-up costs incurred for this program lead to benefits for all customers. The argument is somewhat circular. PSE claims that the Legislature caused it to incur these costs by declaring RNG to be beneficial to utility customers and the public, and that therefore all customers benefit from more RNG. However, RCW 80.28.385, passed at the same time, allows (but does not require) natural gas companies to "supply renewable natural gas for a portion of the natural gas sold or delivered to its retail customers."[17]

PSE began supplying all customers with RNG through its PGA mechanism in October 2020.[18] The same RNG source fuels both that service, as well as the voluntary program envisioned in this tariff filing. Therefore, customers are already benefitting from RNG. If the voluntary program covered under the proposed tariff did not exist, all customers would be getting all the RNG flowing from the company's RNG source.

Basis for Suspension of Tariff

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[16] *Wash. Utils, and Transp. Comm'n v. Waste Control, Inc.,* Docket TG-140560, Order 13, 11-12, ¶ 20 (August 6, 2015).
[17] RCW 80.28.385.
[18] Docket UG-200832.

Staff has three reasons for recommending suspension of the tariff in this case. First, the tariff explicitly states that the company intends to recover the start-up IT costs as part of its next general rate case. This language is unacceptable, as it would constitute pre-approval for cost recovery. Second, either an increase in the $5 per block cost, or a decrease in the number of therms purchased per block, are required to incorporate the $1.5 million in IT infrastructure costs into the tariff. Finally, the company's workpapers were not sufficient for staff to calculate a different rate or therm amount. Before any additional process, staff asks the commission to order the company to file a full set of workpapers that supports each and every element required to develop the rate and block.

Stakeholder Feedback

In its policy statement, the commission noted that it would request feedback from all the state's regulated LDCs regarding which tracking and verification system to use.[19] Accordingly, both the company and staff have reached out to the other three LDCs – Avista Corporation, Cascade Natural Gas Corporation, and Northwest Natural Gas Company – and received verbal approval for using M-RETS as the state's RTC tracking and verification system. Upon staff's request, each of the three LDCs has also filed a short letter in the docket in support of M-RETS.

Additionally, the same letters indicate support for PSE's position on the treatment of start-up costs. The other three LDCs echo PSE's position that the voluntary RNG program is mandated by statute, benefits all customers, and would be unsustainable to maintain if IT start-up costs are borne entirely by program participants.

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[19] "Report and Policy Statement on Investigation on Renewable Natural Gas Programmatic Design and Pipeline Safety Standards," December 16, 2020, at 46. Docket U-190818.