

Agenda Date: February 23, 2023  
Item Numbers: A8, A9, A10, A11, A12

Dockets: UG-220759  
UG-220803  
UG-220926  
UE-220974 and UG-220975

Companies: Cascade Natural Gas Corporation  
Avista Corporation d/b/a Avista Utilities  
Northwest Natural Gas Company d/b/a NW Natural  
Puget Sound Energy

Staff: Molly Brewer, Regulatory Analyst  
David Panco, Regulatory Analyst

## **Recommendation**

Issue orders in Dockets UG-220759, UG-220803, UG-220926, UE-220974, and UG-220975 granting the petitions filed by Cascade Natural Gas Corporation (Cascade), Avista Corporation d/b/a Avista Utilities (Avista), Northwest Natural Gas Company d/b/a NW Natural (NW Natural), and Puget Sound Energy (PSE) (collectively, the Companies) authorizing deferred accounting treatment for direct incremental costs and revenues of compliance with the Climate Commitment Act.

## **Background**

In 2021, the Washington State Legislature passed the Climate Commitment Act (CCA) through Engrossed Second Substitute Senate Bill 5126 into law, codified as RCW 70A.65, to reduce greenhouse gas (GHG) emissions. Also referred to as “Cap and Invest,” the law establishes a declining cap on GHG emissions from covered entities and is intended to reduce emissions in the state 95 percent by 2050.<sup>1</sup> Under the CCA, electric investor-owned utilities (IOUs) receive no-cost allowances equal to their forecasted emissions, based upon clean energy targets under the Clean Energy Transformation Act, and other sources.<sup>2</sup> Gas IOUs receive no-cost allowances equal to 93 percent of baseline emissions, with the allocation decreasing 7 percent yearly.<sup>3</sup>

As such, electric and gas IOUs must either purchase allowances to cover the remaining emissions, or reduce emissions in other ways, to meet their CCA targets. There are costs associated with purchasing allowances and reducing emissions in other ways to comply with the CCA, and there are revenues associated with consigning allowances at auction. These petitions seek deferred accounting treatment for such direct costs and revenues.

## **Summary of Filings**

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<sup>1</sup> See Climate Commitment Act - Washington State Department of Ecology.

<sup>2</sup> WAC 173-446-230

<sup>3</sup> WAC 173-446-240

### *Cascade*

Cascade filed its original petition on October 14, 2022, and filed an amended petition on February 15, 2023. Cascade seeks deferred accounting treatment for revenues associated with consignment of allowances and various costs associated with CCA compliance. The costs include hiring a consultant to assist with best compliance practices, other incremental administrative costs, purchasing allowances, energy efficiency programs for natural gas transportation customers, the acquisition of renewable natural gas (RNG) beyond the cost of brown gas, and possible investment in Research and Development (R&D) related to hydrogen. Cascade estimates first-year costs could be in the range of \$2 - \$40 million. Cascade's amended petition proposes to accrue interest at the actual cost of debt, where previously it had not requested to accrue interest.

### *Avista*

Avista filed its petition on November 1, 2022. Avista seeks deferred accounting treatment for revenues associated with consignment of allowances and various costs associated with CCA compliance. The costs include incremental administrative costs, purchasing allowances, energy efficiency programs for natural gas transportation customers, and the acquisition of RNG. Avista does not have an estimate of total annual costs. Avista requests an interest rate of the actual weighted average cost of debt at the after federal tax interest rate, updated semi-annually. Avista did not file an electric petition because it does not anticipate needing to purchase more allowances outside of the no-cost allowances that align with its supply and demand forecast.

### *NW Natural*

NW Natural filed its petition on December 14, 2022 and filed an amended petition on February 13, 2023. NW Natural seeks deferred accounting treatment for the revenues associated with consignment of allowances, and various costs associated with CCA compliance. The costs include incremental administrative costs, purchasing allowances, enhanced energy efficiency programs, and the acquisition of RNG. NW Natural does not have an estimate of total annual costs. NW Natural's amended petition proposes to accrue interest at the actual cost of debt, where previously it had proposed to accrue interest at the FERC rate.

### *Puget Sound Energy*

PSE filed its electric and natural gas petitions on December 29, 2022. PSE seeks deferred accounting treatment for the costs and proceeds associated with the purchase and consignment of allowances to comply with the CCA. PSE estimates that electric costs could be \$200 million annually, and gas costs \$100 million annually. PSE requests an interest rate of the actual cost of debt, updated semi-annually.

## **Discussion**

### *Rationale for Deferred Accounting Treatment*

Commission staff (Staff) finds that the basis for these deferred accounting petitions is reasonable because the new legal requirements in the CCA are an extraordinary circumstance and the costs have a material impact. Further, costs associated with the CCA could not have been reasonably included in rates in any of their last general rate cases. Staff finds that deferred accounting treatment is reasonable in these petitions because CCA costs are not currently included in rates, and these costs are likely to be significant.

### *Future Cost Recovery of Direct Incremental Costs*

These petitions do not seek any predetermination of the prudence of costs, nor any determination on whether the costs are direct incremental costs of CCA compliance. Such determinations can only be made at the time of future cost recovery. Staff believes that by allowing deferred accounting treatment, Staff is only agreeing that the basis for seeking such treatment is reasonable, and is not making any evaluation of prudence. In doing this, Staff reviewed the types of costs listed in the Companies' petitions.

Staff finds that some costs, such as the direct cost of purchasing allowances at auction, have a clearer link to CCA compliance, while other costs are less clear. Staff finds that other costs, including acquisition of RNG, R&D in hydrogen, enhancing energy efficiency programs, and administrative costs, *could potentially* represent a least reasonable cost pathway to compliance with the CCA. For example, if a company can track and prove that it was the least reasonable cost pathway to acquire a RNG attribute instead of purchasing an allowance, this could potentially be considered an incremental cost in a future proceeding. The Companies would also need to demonstrate that the costs were incremental by proving that these costs would not have been incurred in the regular course of business, and thus are only directly attributable to complying with the CCA.

Since those costs could potentially be reasonable, Staff does not oppose allowing deferred accounting treatment, with the emphatic reminder that the burden of proof is on the Companies to prove that every deferred cost is an incremental direct cost of CCA compliance, when it comes time to seek cost recovery. When seeking future cost recovery, the Companies will need to show how the costs were incremental direct costs of CCA compliance and were prudently incurred. Staff expects that in those future filings, the Companies will include both a narrative description proving such, as well as quantitative and qualitative records for tracking these costs.

### *Future Cost Recovery Mechanism*

The Companies have indicated they may seek cost recovery through an annual tariff rider. NW Natural and Cascade propose they may file a tariff revision annually on November 1, to align with the Purchased Gas Adjustment and other tariff revisions. PSE and Avista have not indicated a proposed date they may file a tariff revision. The rationale for seeking cost recovery through a tariff rider may be to ensure that costs are recovered from ratepayers as close as possible to the period in which they are incurred, thus mitigating intergenerational inequity. Further, this allows

interest to only accrue for a 1-year period, every year. Staff does not take a position on whether these proposed filings are the most appropriate method of seeking recovery of any deferred costs at this time.

### *Interest*

Since several utilities have filed similar petitions, Staff has worked with the Companies to make the filings consistent when it is reasonable to do so. Staff recommends that the Companies accrue interest at their actual cost of debt updated semi-annually. Staff believes the actual cost of debt best compensates the Companies for their actual cost to borrow money, and thus the Companies should be compensated for those actual costs. Further, Staff's recommendation aligns with recent Commission decisions regarding the interest rate in deferred accounting petitions.

### **Comments from Interested Parties**

Through conversations with various interested parties including Public Counsel, The Energy Project, and NW Energy Coalition, Staff understands these parties raise questions about the Companies' proposals to seek cost recovery through an annual tariff revision. Parties have also noted that when seeking cost recovery, the Companies must comply with CCA requirements when consigning revenues for the benefit of ratepayers.<sup>4</sup> Some parties recommend the Companies track such revenues in a separate subaccount. Staff expects that the Companies will seek cost recovery in the manner they see most reasonable, and that they will follow all CCA requirements related to revenues from the consignment of allowances.<sup>5</sup>

### **Conclusion**

Staff finds the basis for allowing deferred accounting treatment of direct incremental costs of CCA compliance reasonable. Staff emphasizes that when seeking future cost recovery, the burden of proof falls upon the Companies in demonstrating that each of these various types of costs the Companies listed are direct incremental costs and were prudently incurred. It will be the Companies' responsibility to ensure that any filing to recover deferred costs is consistent with the CCA's requirements. In recommending approval of these deferred accounting petitions, Staff is not making any judgement or determination about the specific costs at this time. Given this discussion, Staff recommends the Commission issue orders in Dockets UG-220759, UG-220803, UG-220926, UE-220974 and UG-220975 granting the petitions filed by Cascade, Avista, NW Natural, and PSE, authorizing deferred accounting treatment for direct incremental costs and revenues of compliance with the CCA.

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<sup>4</sup> WAC 173-446-300(2)(b)(iii)(A)

<sup>5</sup> WAC 173-446-240(3)