

NW Energy Coalition
for a clean and affordable energy future

July 3, 2023

Via Electronic Filing

Attn: Amanda Maxwell, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
P.O. Box 47250
Lacey, WA 98503

Re: Puget Sound Energy (“PSE”) Gas Climate Commitment Act Tariff (UG-230470)

Dear Director Maxwell:

The NW Energy Coalition (“NWEC”) and Climate Solutions respectfully request the Washington Utilities and Transportation Commission (“Commission”) reject PSE’s tariff schedule to recover allowance costs under the Climate Commitment Act (“CCA”), Docket UE-230470, and direct the company to refile the tariff with a new structure that properly balances the risk between the company and customers, aligns regulatory incentives with state policy, and meets the purpose and intent of the Climate Commitment Act to reduce PSE’s gas system emissions.

PSE’s proposed tariff revision results in a \$0.25 per therm increase for residential gas customers, or a 46% increase in the volumetric charge over current rates.

NWEC and Climate Solutions believe that PSE’s proposed rate increase is unreasonable and unjust. Passing through 100% of PSE’s costs incurred to purchase allowances at auction to cover the company’s compliance obligation for its gas system greenhouse gas emissions under the Climate Commitment Act demonstrates a lack of risk-sharing by the Company, and exposes PSE customers to undue market risk. It further demonstrates a misalignment of regulatory incentives with state policy, which seeks to reduce emissions from the state’s largest emitters – including PSE.

NWEC and Climate Solutions appreciate PSE’s efforts to engage stakeholders in its review of CCA requirements to inform the design of this tariff. The CCA is a complex policy, and its effective application to gas utilities will be significantly determined by the Commission’s cost recovery treatment. Given the complexity of the program’s

application to gas utilities, we are disappointed in the short timeline and limited opportunities to address the policy issues raised in this tariff revision, and to engage in broader discussions about potential alternative mechanisms. Therefore, we submit these comments as preliminary. As we continue to explore these issues with the Company, Staff, and other stakeholders, we will consider filing supplemental comments in this docket in advance of the July 20 Open Meeting.

1. Passing 100% of allowance costs through to customers exposes customers to undue and unbalanced market risk, contrary to foundational regulatory principles.

PSE's proposed Gas CCA cost recovery tariff is a form of retroactive, single-issue ratemaking, which is designed to ensure that PSE recovers 100% of costs incurred to purchase emissions allowances. This violates the well-established regulatory principles of balancing risks between the utility and customers, and establishing regulation to mirror the nature of for-profit businesses operating in a competitive market.

According to these principles, the utility should assume a reasonable portion of the risk of higher allowance costs or lower consignment revenues in the market – similar to unregulated covered entities. In exchange, the Commission offers the utility the opportunity to earn a reasonable rate of return. While we accept that the CCA will have rate impacts, it is the Commission's duty to ensure that its regulatory oversight over CCA costs is effective in protecting customers, aligning regulatory incentives, and providing sufficient opportunity for public participation and review. PSE's proposal represents an inappropriate shift of costs and risk to PSE's customers. The Commission should reject this flawed approach.

2. Passing 100% of allowance costs through to customers is a perverse incentive, is antithetical to the purpose of the CCA, and is not aligned with the Legislature's directive concerning performance-based ratemaking.

A mechanism that ensures that 100% of allowance costs are passed through to customers does not provide the appropriate incentive to PSE to reduce emissions. Rather, it makes the company indifferent as to whether it reduces emissions or not, contrary to the intent and purpose of the Climate Commitment Act. Underlying PSE's proposal is an assumption that, regardless of the price of allowances, the company will be able to purchase the allowances it needs to cover its emissions in perpetuity, and customers will pay 100% of the costs. Going forward, there is no guarantee allowances will be available, or at a cost-effective price, in the amount in which PSE plans to purchase them. This treatment therefore puts customers at risk and is not in the public interest, because it does not lead to a reduction in emissions, nor does it mitigate costs incurred by customers.

In addition, Washington state law directs the Commission to consider performance-based regulation, including performance incentives and penalty mechanisms; and to consider factors including attainment of state energy and carbon reduction policies.¹ At a minimum, a cost sharing mechanism, which the Commission has adopted in other contexts, would be appropriate in this instance. This treatment is applied in a variety of circumstances to costs incurred by investor-owned utilities like PSE buying and selling in a market context - most notably, in the Commission's treatment of power costs. These mechanisms are subject to annual review of baseline assumptions and adjustments, and can be designed to provide an appropriate incentive to the Company to invest in measures to reduce emissions. Stakeholders and utilities would benefit from Commission guidance on the design of such a mechanism before utilities' CCA allowance costs are passed through to customers. We urge the Commission to align its treatment of CCA allowance costs with the Legislature's directive, such as through a performance incentive mechanism.

3. The number of allowances which PSE must purchase for compliance is a function of company operations, and is within the company's control.

As discussed in both NWEC's and Climate Solutions' comments on PSE's 2023 Natural Gas Integrated Resource Plan, it is the Company's responsibility to take action to reduce emissions under the Climate Commitment Act.² While factors like customer growth, the economy, weather, and many other factors certainly have an impact on the effectiveness of the Company's decarbonization measures, *the only entity that can reduce PSE's gas emissions is PSE*. The Company must adjust its operations, investment strategy, purchasing decisions, and customer programs to meet its emissions reduction obligations. To the extent that the specific scale and pace of those obligations are a function of market conditions, the Commission's regulatory treatment of costs and benefits should provide the appropriate financial incentives for the Company to decarbonize, and for customers to be protected from undue risk.

In addition, the Company's filing reflects exorbitant costs for just five (5) months of compliance. We wonder why compliance costs are so high given the CCA's no cost allowance distribution schedule.³ This raises many other questions which warrant further investigation, but prove difficult for stakeholders to assess due to a covered entity's limited ability to discuss information related to auction bidding.⁴ It will be necessary for the Commission to exercise its investigatory authority to assess whether costs incurred to purchase allowances in Washington's emissions trading program were prudent.

¹ Laws of 2021 c 188

² See Comments of NWEC and Climate Solutions docket UG-220242

³ WAC 173-446-240

⁴ WAC 173-446-317

4. NWEC and Climate Solutions support the comments of The Energy Project (TEP).

TEP requests that PSE work with its Low Income Advisory Committee to establish a procedure for automatic enrollment of identified low-income customers by January 1, 2024. Additionally, because PSE's proposal will likely not offer bill credits to the majority of its eligible low-income gas customers, TEP requests PSE to provide the customers identified in the automatic enrollment process with bill credits to offset all CCA-related costs. We agree that this is necessary in order to meet the CCA's statutory requirement to fully eliminate CCA costs for low-income customers.

5. NWEC and Climate Solutions oppose itemizing CCA allowance costs on gas customer bills, without providing customers with further information.

In general, we believe that program-specific line items on customer bills should be used sparingly, and only when doing so provides useful and complete information to the customer. We don't think that is the case with PSE's proposed treatment of CCA allowance costs, which would appear on customers' bill as a "cap & invest charge". Fundamentally, costs that incur to PSE that are associated with regulatory requirements are simply a cost of doing business, which should be included in base rates. It may be appropriate to recover these costs either through the delivery charge or the fuel charge. New line items should be reserved for: 1) core billing determinants (basic charge, delivery charge, fuel charge); 2) voluntary programs which the customer has opted in to; and 3) state and local taxes. If the Commission prefers to itemize CCA allowance costs on customer bills in the interest of transparency of CCA costs, we recommend that it also require PSE to disclose the emissions associated with that customer's gas use, and information about how the customer can reduce their gas bill by taking advantage of PSE's energy efficiency and targeted electrification programs, and federal and state incentives.

6. The docket schedule does not provide ample opportunity for stakeholders to respond to this unique and complex filing.

A Notice of Opportunity to File Written Comments on PSE's new tariff was published on June 23, 2023, establishing a deadline of July 3, 2023, a mere six (6) business days for interested stakeholders to read and prepare comments on the filing. In response to the Notice, the NW Energy Coalition and the Public Counsel Unit of the Attorney General's Office filed requests to extend the deadline for written comments. On July 3, 2023, the Commission issued a Notice Clarifying Notice of Opportunity to File Written Comments, retaining the original comment deadline of July 3, 2023.

NWEC and Climate Solutions remain concerned that adequate time has not been given to review a complicated and technical request from the state's largest utility concerning a first-of-its-kind tariff filing on a complex and new regulatory program with significant customer bill impacts. The timeline likely decreases the ability of stakeholders to

meaningfully review and engage in this docket, but we appreciate the clarification that supplementary comments filed through July 18, 2023 will be considered by the Commission.

Respectfully submitted,

/s/ Lauren McCloy

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