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Mr. Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

**Re: Advice No. 2021-07
PSE Natural Gas Tariff Revision - Filed Electronically**

Dear Mr. Johnson:

Pursuant to RCW 80.28.060 and Chapter 480-80 WAC, please find enclosed for filing the following proposed revision to the WN U-2 Tariff for natural gas service of Puget Sound Energy (“PSE”):

Original Sheet No. 138 – Supplemental Schedule 138: Voluntary Renewable Natural Gas Service – Purchase Rider
Original Sheet No. 138-A – Supplemental Schedule 138: Voluntary Renewable Natural Gas Service – Purchase Rider (Continued)
Original Sheet No. 138-B – Supplemental Schedule 138: Voluntary Renewable Natural Gas Service – Purchase Rider (Continued)

The purpose of this filing is to propose to add Supplemental Schedule 138 – Voluntary Renewable Natural Gas Purchase Rider to PSE’s gas service. This will provide an option for all natural gas customers to purchase renewable natural gas (“RNG”) as part of their monthly gas service, as required by recent legislation. In addition, this filing seeks to address PSE’s intention to request recovery of the initial information technology (“IT”) start-up costs needed to implement the voluntary RNG service, in its next general rate case. The service is scheduled to be available to natural gas customers on October 1, 2021.

Statutory Requirements

RCW 80.28.385 Renewable Natural Gas Program was signed into law in 2019 to support the development of RNG resources and to provide guidelines for natural gas companies who opt to include RNG purchases with other natural gas purchases sold to customers. To implement RCW 80.28.385 Renewable Natural Gas Program and supply RNG for a portion of the natural gas sold to its retail sales customers, in Docket UG-200540 PSE added clarifying language to the

Purchased Gas Adjustment (“PGA”) Mechanism in Rule No. 26 of its natural gas tariff. The changes clarified that costs associated with the purchase of RNG will be included in the PGA Mechanism, which recovers projected and actual gas costs. Those costs have been included and approved by the Commission in PSE’s last PGA filing in Docket UG-200832.

Concurrent with RCW 80.28.385, a separate law, RCW 80.28.390 Tariff-Voluntary Renewable Natural Gas Service also went into effect. This separate law requires gas companies to offer a new optional tariff schedule that provides RNG service to all individual natural gas customers, at the customer’s choice. PSE’s 2020 RNG contract with Klickitat Public Utility District, along with any additional future RNG contracts or projects, will provide an RNG supply that is both adequate for PSE to make optional purchases under RCW 80.28.385(1), and to comply with the separate law RCW 80.28.390(1). This filing intends to offer a voluntary RNG service as prescribed in RCW 80.28.390 Tariff-Voluntary Renewable Natural Gas Service. The amount of RNG that will be subscribed voluntarily through the proposed Schedule 138 will be accounted for separately from the RNG that will flow through the PGA. It is also within the annual PGA filing that, as requested by Staff, PSE can report details on the number of Renewable Thermal Certificates (“RTCs”) retired within the Schedule 138 service. PSE intends to establish an average RNG unit cost for application in this service annually, based on the expected weighted average unit cost for all RNG purchased by PSE for both this service and the RCW 80.28.385 program.

Recovery of Initial Start-up Costs

PSE must make expenditures in order to establish this service for all natural gas customers. These start-up costs will be incurred prior to the generation of revenues from customers electing to participate in this optional service. The key initial start-up costs are IT expenditures for the preparation of the digital platform that will allow for: customers to sign up on pse.com, PSE to track enrollment, configuration of the billing system to calculate both a charge for RNG and a credit for conventional natural gas, software updates to revise the customer bill, automating customer communication, and integrating and testing systems. Currently estimated to be \$1.5 million, PSE has not included these costs in the rate developed for this tariff service and intends to request to recover these initial start-up costs in its next general rate case.

The law references the fact that RNG provides benefits to customers and the public, and that the development of RNG resources should be encouraged to support a smooth transition to a low carbon energy economy in Washington.¹ The Washington State Energy Strategy aligns with this directive, stating that natural gas companies should increase the use of RNG to achieve near-term reductions in emissions, and that the Legislature and the UTC should explore legislative and regulatory actions to advance cleaner options when available.² PSE appreciates the flexibility intended by the Commission’s policy statement under Docket UG-190818 to support the

¹ <http://lawfilesexternal.wa.gov/biennium/2019-20/Pdf/Bills/Session%20Laws/House/1257-S3.SL.pdf#page=1>

² <https://www.commerce.wa.gov/wp-content/uploads/2020/12/Washington-2021-State-Energy-Strategy-December-2020.pdf>

development of robust RNG programs and to empower utilities to achieve the goals of state policy and law.

PSE recognizes that the Commission's policy statement provides that infrastructure costs of the service should be reflected in the tariff. Yet, PSE believes that costs to implement a statute-required natural gas service established to benefit all customers and the public should be borne by all customers who have the opportunity to participate. If these costs were to be borne by participants only, the costs of offering the product will increase and the amount of RNG that each customer will buy per block will decrease. PSE expects that this could reduce customer interest in the product and decrease the total quantity of RNG supplied through the voluntary service, limiting the extent to which the new service facilitates the transition to a cleaner gas supply that is envisioned by state policy and law. Further, the development of RNG, as intended by the new law, provides a benefit for all customers. Consequently, PSE has excluded the IT costs from this tariff rate to allow the opportunity to expressly advocate for its recommended treatment in this docket.

PSE's cost recovery proposal is also consistent with other services required by law, and approved by the Commission:

- Conservation services – all customers pay for conservation services, collected by Schedule 120, regardless of whether they are participants in those conservation services.
- Net metering service – all customers pay for net energy costs paid to net metering customers, regardless of whether they are participants in the net metering service (costs are also collected from all customers through Schedule 120).

It is notable that the Commission has previously approved charges for services that do not fully recover actual costs from the participants. For example, in Dockets UE-180860 and UG-180861, as noted in their Order, the Commission approved a fee to participants that “does not reflect the actual cost for the Company.”

Finally, PSE believes its proposal meets the principle of cost causation. The Legislature caused PSE to incur costs to offer a service to all natural gas customers; therefore assignment of these costs to all natural gas customers is reasonable.

Benefits to all Customers

The proposed Schedule 138 supports the state's direction to develop lower-carbon gas options. By offering a voluntary product, PSE will provide all customers with the opportunity to share in the direct benefits of new RNG resources within PSE's territory. In addition to providing a voluntary clean energy option available to all customers, participation in the voluntary service increases the overall supply of RNG that PSE can procure and thus expands benefits for all customers. Increased voluntary service participation facilitates the transition to lower-carbon gas alternatives in support of the state clean energy strategy. Increased reliance on RNG benefits all customers; it decreases carbon emissions from gas production and consumption, it supports the

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clean energy economy in Washington, and it provides a more sustainable pathway for organic waste.

Tracking, Verification and Banking of Environmental Attributes

PSE has already requested and received feedback from all the other natural gas utilities, and there is unanimous consensus of all the other natural gas utilities with PSE choosing M-RETS (the Midwest Renewable Energy Tracking System) to track its RTCs and verify the environmental attributes thereof. PSE will include carbon intensity calculations in its specifications around the tracking and verification process, and will comply with RTC banking criteria and guidance described in the Commission's policy statement. As noted earlier, PSE will report on the RTCs used for the voluntary service and the portfolio program, including details of sources and uses for RTCs leveraged for each, upon request, in its annual PGA filing.

The tariff sheets described herein reflect an issue date of March 22, 2021 and an effective date of April 23, 2021. Posting of the proposed tariff change for public inspection and review, as required by law and the Commission's rules and regulations, is being completed in accordance with WAC 480-90-193(1). No notice is required under the provisions of WAC 480-90-194 or -195.

Please contact Julie Waltari at (425) 456-2945 or julie.waltari@pse.com for additional information about this filing. If you have any other questions, please contact me at (425) 456-2142.

Sincerely,

/s/ Jon A. Piliaris

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Director, Regulatory Affairs
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cc: Lisa Gafken, Public Counsel
Sheree Carson, Perkins Coie
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Attachments:
Natural Gas Tariff Sheets (listed above)
Work paper