**EXH. MS-3T**
**DOCKET UG-230968**
**WITNESS: MATT STEUERWALT**

**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**<br><br>**Complainant,**<br><br>**v.**<br><br>**PUGET SOUND ENERGY,**<br><br>**Respondent.** | **DOCKET UG-230968** |

# PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

# MATT STEUERWALT

# ON BEHALF OF PUGET SOUND ENERGY

**SEPTEMBER 12, 2024**

**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF MATT STEUERWALT**

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**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF MATT STEUERWALT**

## I. INTRODUCTION

**Q. Are you the same Matt Steuerwalt who submitted Prefiled Direct Testimony on April 25, 2024, on behalf of Puget Sound Energy in this proceeding?**

A. Yes. On April 25, 2024, I filed the Prefiled Direct Testimony of Matt Steuerwalt, Exhibit MS-1T, and one supporting exhibit (Exh. MS-2) thereto, on behalf of Puget Sound Energy ("PSE") in this proceeding.

**Q. What is the purpose of your prefiled rebuttal testimony?**

A. This prefiled rebuttal testimony addresses arguments presented in prefiled rebuttal testimony filed on behalf of the Joint Environmental Advocates, which includes Climate Solutions, NW Energy Coalition, and Washington Conservation Action (collectively, "JEA"). As discussed below, this prefiled rebuttal argument recommends that the Commission:

(i) reject arguments of JEA that are inconsistent with the scope of the Climate Commitment Act ("CCA") and, if implemented, would increase PSE's business risks to the detriment of PSE customers;

(ii) reject the unsupported suggestion of JEA that the Commission issue penalties for any "violation" of the Commission order to propose a risk-sharing mechanism in this proceeding;

(iii) find that PSE has designed Schedule 111 to comply with the CCA requirement to eliminate the cost-burden for low-income customers;

(iv) decline to order a risk-sharing mechanism in this proceeding and, instead, order a transparent and efficient process for reporting, documentation, and prudence review of CCA compliance costs, consistent with the process utilized by the California Public Utilities Commission in reviewing the recovery of cap-and-trade program compliance costs by natural gas utilities in California, and

(v) if the Commission were to determine that a risk-sharing mechanism for CCA compliance costs to be necessary, adopt the risk-sharing mechanisms proposed by PSE in the Prefiled Direct Testimony of Christopher T. Mickelson, Exh. CTM-1CT, because it is the only risk-sharing mechanism that is fully developed and able to be implemented without additional design considerations and without providing significant increased risk to customers.

## II. THE COMMISSION SHOULD REJECT ARGUMENTS OF JEA THAT ARE INCONSISTENT WITH THE SCOPE OF THE CCA AND, IF IMPLEMENTED, WOULD INCREASE PSE'S BUSINESS RISKS TO THE DETRIMENT OF PSE CUSTOMERS

**Q. Does the CCA require that the Commission establish a risk-sharing mechanism for utilities for recovery of CCA compliance costs?**

A. No. The CCA does not require that the Commission establish a risk-sharing mechanism for utilities for recovery of CCA compliance costs.

**Q. Does the CCA expressly provide the Commission with affirmative authority to establish a risk-sharing mechanism for recovery of CCA compliance costs by utilities?**

A. No. The CCA does not include, by reference or general concept, any mention of a risk-sharing mechanism, responsibility, or intention for recovery of CCA compliance costs by natural gas utilities or other public service companies subject to the jurisdiction of the Commission.

**Q. Does PSE have any reason to believe that the legislature did not intend for the Commission to establish a risk-sharing mechanism for recovery of CCA compliance cost by public service companies subject to the jurisdiction of the Commission?**

A. Yes. In the drafting process for House Bill 1589 during the legislative session in 2024, legislators expressly considered—but rejected—language that would have required certain utilities to adopt a risk-sharing mechanism for recovery of CCA compliance costs. The second draft of Engrossed Substitute House Bill (ESHB) 1589 included the following Section 5(4):

> The large combined utility has implemented a reasonable risk sharing mechanism that equitably balances the risks of decarbonization between the large combination utility and customers.[1]

[1] Washington State Senate Committee on Environment, Energy & Technology (Nguyen), Second Draft ESHB 1589, Document 1589-S.E AMS ENET S4307.2, available at https://app.leg.wa.gov/committeeschedules/Home/Document/267110.

The final version of ESHB 1589 passed by the legislature, however, does not include this clause.[2]

**Q. Does there appear to be a uniform understanding among parties in this proceeding of the "risk" that the risk-sharing mechanism is intended to share?**

A. No. There does not appear to be uniform understanding among parties to this proceeding regarding the "risk" that the risk-sharing mechanism is intended to share.

As discussed in the Prefiled Direct Testimony of Jamie L. Martin, Exh. JLM-1T, and in the Prefiled Direct Testimony of Todd A. Shipman, Exh. TAS-1T, Commission Staff appears to imply that a risk-sharing mechanism is necessary to ensure that Schedule 111 does not shift "actual costs during the rate year [that] differ from the baseline level of costs embedded in the tracker rates,"[3] a "risk" that Commission Staff refers to as "variance risk" that Commission Staff should be borne by utilities, except under certain circumstances for which Commission Staff proposes a policy framework for adoption.[4]

On the other hand, JEA appears to attempt to design a risk-sharing mechanism that encourages PSE to reduce greenhouse gas emissions rather than purchase

[2] Engrossed Substitute House Bill 1589, Chapter 351, Laws of 2024, 68th Legislature, 2024 Regular Session, effective March 28, 2024, available at https://lawfilesext.leg.wa.gov/biennium/2023-24/Pdf/Bills/Session%20Laws/House/1589-S.SL.pdf.

[3] McGuire, Exh. CRM-1T at 7:8-9.

[4] *See*, *e.g.*, *id*. at 5:1 – 26:5.

allowances to comply with the CCA, particularly when the price of CCA allowances are at or near the annual price ceilings of the CCA.[5]

**Q. On what premise rests the apparent argument of JEA that PSE is improperly allocating CCA compliance risks to customers?**

A. JEA starts with the uncontroversial premise that "the primary goal of the [CCA] is to achieve statewide emissions reduction goals."[6] Then, JEA takes the novel position that the CCA requires individual covered entities to achieve a proportional share of the statewide greenhouse gas emissions target through greenhouse gas emissions reductions:

> The CCA directs implementation of a program to reduce emissions reduction statewide, on a proportional basis among sectors. Thus compliance by covered entities to meet the CCA's goals is achieved primarily through emissions reductions.[7]

JEA concludes by stating that PSE's Schedule 111 and proposed risk-sharing mechanism, each of which focuses on CCA allowance costs, passes through the cost of compliance without providing financial incentives to decarbonize:

> By structuring its tariff as a 100% pass through, PSE is not financially affected by the allowance auctions and therefore has no reason to ensure it is constantly evaluating short-, medium-, and long-term options to decarbonize as compared to purchasing allowances. This approach nullifies the structure and function of the CCA because no price signals are sent to the covered entity that is capable of structuring and implementing a decarbonization plan.[8]

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5 *See generally* McCloy, Exh. LM-1T at 3:13 – 14:17; Gehrke, Exh. WG-1T at 21:13 – 30:6.
6 McCloy, Exh. LM-1T at 6:8-9.
7 *Id*. at 8:13-16.
8 *Id*. at 12:14-19.

**Q. Does the CCA require covered entities to comply with "the CCA's goals . . . primarily through emissions reductions"?[9]**

A. No. JEA mischaracterizes the use of the phrase "proportional share" in the CCA and misunderstand the mechanism for compliance with the statute. The sole compliance obligation of a covered entity under the CCA is the submission of compliance instruments, whether allowances or offsets, to the Washington Department of Ecology in an amount equal to the greenhouse gas emissions for which the covered entity is responsible for a relevant compliance period. There is no language in the CCA that requires, nor even indicates a legislative intent to require, covered entities or any sector of covered entities to achieve a proportionate share of the state's greenhouse gas emissions targets. Indeed, any expectation that individual covered entities or sectors of covered entities would have obligations for direct emission reductions would be counter to the entire theory and practice behind a cap-and-invest (or cap-and-trade) program. The point of a cap-and-invest program is to realize economic efficiencies while pursuing emissions reductions by creating an economy-wide cap on greenhouse gas emissions that allows the market to determine the lowest cost pathways to achieve acceptable emissions within the stated boundaries set in the cap-and-invest system. The premise of a cap-and-invest program is to alter the fundamentals of the market by placing a price on externalities (*i.e.,* emissions) to change market behaviors. In other words, a cap-and-invest program seeks to achieve state- or

[9] *Id*. at 8:15-16.

economy-wide emissions reductions to achieve certain emission goals but is agnostic to the sources of the emissions reductions and certainly does not mandate specific reduction requirements on individual covered entities.

For example, the Office of Air and Radiation of the U.S. Environmental Protection Agency discusses the theory behind cap-and-trade programs as follows:

> Cap and trade programs provide sources with flexibility in how they achieve their emission target, which is uncommon under traditional environmental policy approaches. The cap establishes the emission level for emission sources; the sources, however, are provided with the flexibility of choosing how they want to abate their emissions…The regulating authority does not need to approve each source's compliance choices because the cap, accompanied by emission measurement and reporting requirements, enable the regulating authority to focus on assessing compliance results (i.e., ensuring that each source has at least one allowance for each unit of pollution emitted). Cap and trade programs also allow sources to trade allowances, providing an additional option for complying with the emissions target. Sources that have high marginal abatement costs (i.e., the cost of reducing the next unit of emissions) can purchase additional allowances from sources that have low marginal abatement costs. In this way, both buyers and sellers of allowances can benefit. Sources with low costs can reduce their emissions below their allowance holdings and earn revenues from selling their excess allowances – a reward for better environmental performance. Sources with high costs can purchase additional allowances at a price that is lower than the cost to reduce a unit of pollution at their facility…[10]

[10] U.S. Environmental Protection Agency, Office of Air and Radiation, *Tools of the Trade: A Guide to Designing and Operating a Cap and Trade Program for Pollution Control*, EPA 430-B-03-002 (June 2003), available at https://www.epa.gov/sites/default/files/2016-03/documents/tools.pdf.

Similarly, the Washington Department of Ecology discusses the theory behind the Cap-and-Invest Program that the agency implemented pursuant to the CCA as follows:

> [C]ap-and-invest uses the powers of supply and demand to incentivize businesses to cut their emissions, using whatever strategy they think is best.[11]

The International Emissions Trading Association (IETA) describes the benefits of a cap-and-invest or cap-and trade program as follows:

> Emissions trading is one of the principal policy instruments available to manage industrial greenhouse gas (GHG) emissions by encouraging operational excellence and the deployment of new and existing technologies. Emissions trading is effective because:
>
> - It is economically efficient
> - It is specifically designed to deliver an environmental objective
> - It delivers a clear price signal[12]

**Q. Do other jurisdictions overseeing cap-and-trade markets require proportionate reduction by covered entities?**

A. No. Neither the California nor the Québec cap-and-trade program requires proportional reduction by covered entities. In legislative hearings, an express interest of the legislature and the Washington Department of Ecology was to follow the California program, both for purposes of future linkage and to learn

[11] Washington Department of Ecology, *Climate Commitment Act: A market-based solution*, available at https://ecology.wa.gov/Air-Climate/Climate-Commitment-Act#capandinvest.

[12] International Emissions Trading Association (IETA), *About – Our Principles*, available at https://www.ieta.org/about/.

from the successful and not so successful features of the California cap-and-trade program:

> And if we are going to go down that path [linkage] we have to go through a public process and [see] findings about whether that linkage is beneficial to the state before we make that decision. We carefully follow California's program. We want to see how it works, we want to learn from their successes, and from some of their not so successful features of their programs over the years. So we definitely pay attention to what they're doing and we would factor that into any decision about whether we link or not.[13]

The staff report of the California Air Resource Board (ARB) regarding program implementation is a good example of an explanation of the fundamentals of such as market-based system. Specifically, the staff report includes a discussion of an overarching cap approach vs. a facility-specific or proportional share approach.

> The cap-and-trade program is a key element of this overall strategy. It creates a limit on the emissions from sources responsible for 85 percent of California's GHG emissions, establishes the price signal needed to drive long-term investment in cleaner fuels and more efficient use of energy, and *affords covered entities flexibility to seek out and implement the lowest-cost options to reduce emissions*.
>
> In the cap-and-trade program, ARB will place a limit, or cap, on GHG emissions by issuing a limited number of tradable permits (called *allowances*) equal to the cap. Over time, the cap will steadily decline. The cap is enforced by requiring each source that operates under the cap to turn in one allowance or offset credit for every metric ton of carbon dioxide equivalent (MTCO2e) that it emits.
>
> *Because these allowances are tradable, individual emitters do not have specific emission limits. By establishing a limit for the program overall rather than for individual sources, the cap-and-trade program gives sources flexibility to make the most cost-effective choices about when and how to reduce emissions.*

[13] E2SSB 5126 - Concerning the Washington Climate Commitment Act: Hearings before the Washington State House Environment & Energy Committee, (Apr. 14, 2021) (Statement of Stu Clark, Washington Department of Ecology). https://tvw.org/video/house-environment-energy-committee-2021041204/?eventID=2021041204 (starting at 1:06:45).

*An alternative to an overarching cap for covered entities and sectors would be to have facility-specific declining caps. This would ensure that each facility would reduce its proportional share of emissions.* Under such an option, ARB would need to identify the specific facilities that would be covered by the program, conduct an appropriate analysis to support a specific cap for each facility, and consider whether the reduction requirements established by the declining cap for that facility would be cost-effective. Such a program would be extremely difficult to apply to imported electricity or to distributed use of fuels, so that the overall scope of the program would likely be need to be limited to industrial facilities and in-state power plants.

Facility-specific caps would diminish the flexibility of these facilities to meet the GHG reduction goals. In a standard cap-and-trade program, facilities can either reduce emissions or buy allowances from other facilities that do reduce emissions. Restricting trading leaves only one compliance option: reduce emissions on-site through increasing efficiency, modernizing equipment, changing to cleaner fuels, or reducing production. If the cap for all facilities declined at the same rate, individual facilities might not have cost-effective options, especially if they seek to expand production to meet increased demand. Establishing caps that decline at different rates at different facilities would require ARB staff to conduct a detailed analysis to determine what, if any, cost-effective options were available at each covered facility.

Reducing the flexibility of trading allowances would increase the cost of the program. With facility-specific caps, no market would exist that allowed entities to trade allowances and achieve the lowest-cost reductions. Facilities with large amounts of low-cost reductions would have little incentive to over-comply, while facilities with a limited number of reduction opportunities would have to implement expensive reduction strategies. Thus, staff has rejected this alternative because of the increased cost of implementing the program across the economy.[14]

[14] California Air Resource Board, *Agency Proposed Regulation to Implement the California Cap-and-Trade Program, Part I, Volume I, Staff Report: Initial Statement of Reasons* (Oct. 28, 2010) (italics added), available at https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2010/capandtrade10/capisor.pdf.

**Q. What conclusions should the Commission draw from these legislative and other sources?**

A. The "proportional share" language in the CCA refers to covered entities in the aggregate and not to any specific individual covered entity. For example, the CCA requires the Washington Department of Ecology to evaluate the annual allowance budget periodically and make adjustments necessary to covered entities to achieve their proportionate share of the emissions reduction targets in RCW 70A.45.020:

> The department must complete evaluations by December 31, 2027, and by December 31, 2035, of the performance of the program, including its performance in reducing greenhouse gases. *If the evaluation shows that adjustments to the annual allowance budgets are necessary for covered entities to achieve their proportionate share of the 2030 and 2040 emission reduction limits identified in RCW 70A.45.020, as applicable, the department shall adjust the annual allowance budgets accordingly*. The department must complete additional evaluations of the performance of the program by December 31, 2040, and by December 31, 2045, and *make any necessary adjustments in the annual allowance budgets to ensure that covered entities achieve their proportionate share of the 2050 emission reduction limit identified in RCW 70A.45.020*. Nothing in this subsection precludes the department from making additional adjustments to annual allowance budgets as necessary to ensure *successful achievement of the proportionate emission reduction limits by covered entities*.[15]

This statutory language clearly addresses the collective emissions reductions of all covered entities and does not require any individual covered entity achieve any proportionate share. As discussed earlier, an important purpose of a cap-and-invest program is to allow market forces to determine which emissions reduction are least costly, which will, in turn, result in certain sectors or covered entities

[15] RCW 70A.65.070(3).

bearing a larger share of the overall proportionate share of the statewide entities than others. If the legislature had wanted to ensure proportional greenhouse gas reductions by individual covered entities, as suggested by JEA, the legislature could have mandated emission reduction targets for individual covered entities and foregone the complex system of transferable compliance instruments or linking with California and Québec cap-and-trade programs.

**Q. Is there additional support in the legislative record for the position that compliance with the CCA does not require a proportionate share of greenhouse gas emission reductions by individual covered entities?**

A. Yes. First and foremost, compliance is understood in the law to include the use of compliance instruments, either allowances or offset credits issued by the Washington Department of Ecology, to cover emissions during the compliance period. The Final Bill Report[16] expressly notes that "the program must track, verify, and enforce compliance through the use of compliance instruments."[17] Other statements in the Final Bill Report support this economy-wide approach:

> Cap and trade is a market-based, economy-wide approach to reduce pollution, which is comprised of two key components—a limit or cap on carbon emissions and tradable allowances.[18]

> The Governor must establish a comprehensive program to implement the state's climate commitment. The purpose of the comprehensive program is to provide accountability and authority for achieving the statewide emissions limits, to establish a

[16] Wash. Senate, Final Bill Report E2SSB4126, 2021. https://lawfilesext.leg.wa.gov/biennium/2021-22/Pdf/Bill%20Reports/Senate/5126-S2.E%20SBR%20FBR%2021.pdf

[17] *Id*. at 5.

[18] *Id*. at 1.

> coordinated and strategic statewide approach to climate resilience, and to build an equitable and inclusive clean energy economy.
>
> Implementing the state's climate commitment under the comprehensive program must be based on a set of specified principles, including being holistic; addressing emissions reductions from all relevant sectors and sources; supporting an equitable transition for vulnerable populations and overburdened communities, increasing climate resilience for communities and ecosystems through cross-sectoral coordination, planning and policies; applying scientific and technical information; implementing with sustained leadership, resources, clear governance, and prioritized investments at the scale necessary to meet emissions limits.[19]

Further, the following comments from the bill sponsor and representatives from the Department of Ecology support the market-based focus of the Cap-and-Invest Program:

> I fully acknowledge with profound respect there are those with strong philosophical opposition to any program that sees market forces as having a role a constructive role to play in reducing emissions. I fully acknowledge with respect those that believe market forces are inherently inequitable. For me as chair of this committee and a father of four, the fierce urgency of climate action compels us to find a path forward. I also acknowledge that in the past few years there've been two statewide ballot initiatives and multiple carbon pricing bills in legislature that have been unsuccessful. I believe the answer is this very bill and this very package. It is a well-crafted market based program with a firm cap and reductions of emissions with regulatory oversight that puts environmental justice at its core and invests the money wisely in transportation and other key investments.[20]
>
> The legislation must create an economy wide market to ensure availability of least cost initial reduction opportunities…it must

[19] *Id*. at 4.

[20] Public Hearing: SB 5126 - Concerning the Washington Climate Commitment Act before the Washington State Senate Environment, Energy & Technology Committee (Jan. 19, 2021) (Statement of Senator Reuven Carlyle). https://tvw.org/video/senate-environment-energy-technology-committee-2021011336/?eventID=2021011336 (beginning at 11:00).

> provide flexibility, but not a free pass for key sectors and industries.[21]

**Q. Does the legislature's decision to require that natural gas utilities auction an increasing percentage of no cost allowances indicates that "the CCA provisions are structured 1) primarily to reduce emissions and, in the interim, 2) to consider the financial logic of covering emissions with allowances …"?[22]**

A. No. The statutory language is clear that the legislature is requiring the Washington Department of Ecology to provide no-cost allowances to natural gas utilities to mitigate customer compliance costs associated with the CCA. The requirement to auction no cost allowances serves primarily as a source of funds to mitigate compliance costs for low income customers:

> (2)(a) Beginning in 2023, 65 percent of the no cost allowances must be consigned to auction for the benefit of customers, including at a minimum eliminating any additional cost burden to low-income customers from the implementation of this chapter. Rules adopted under this subsection must increase the percentage of allowances consigned to auction by five percent each year until a total of 100 percent is reached.
>
> (b) Revenues from allowances sold at auction must be returned by providing nonvolumetric credits on ratepayer utility bills, prioritizing low-income customers, or used to minimize cost impacts on low-income, residential, and small business customers through actions that include, but are not limited to, weatherization, decarbonization, conservation and efficiency services, and bill assistance. The customer benefits provided from allowances consigned to auction under this section must be in addition to existing requirements in statute, rule, or other legal requirements.

[21] *Id*. (Comments of Stu Clark, Washington Department of Ecology) (starting at 13:52).
[22] McCloy, Exh. LM-1T at 11:3-8.

> (c) Except for low-income customers, the customer bill credits under this subsection are reserved exclusively for customers at locations connected to a natural gas utility's system on July 25, 2021. Bill credits may not be provided to customers of the gas utility at a location connected to the system after July 25, 2021.[23]

The reduction in no-cost allowances and the increase in the number of no-cost allowances for consignment mirrors the structure and schedule implemented in the California cap-and-trade program. This was a deliberate choice and has no relationship as to whether a natural gas utility would comply by the CCA by purchasing compliance instruments, reducing greenhouse gas emissions, or a combination of the two. NW Energy Coalition testified to that effect in the legislative record asking "that revenue from allowances allocated to electric and natural gas utility utilities at no cost include additional consideration to help ensure benefits accrue to low and moderate income customers with priority for low-income customers with high energy burden."[24] To that end, PSE has structured its compliance accordingly, including eliminating low-income bill burden and prioritizing investment of revenues in projects that address high energy burden in low-income communities.[25]

[23] RCW 70A.65.130(2); *see also* Final Bill Report E2SSB 5126 at 11 (stating that the requirement that the allocation of no-cost allowances to natural gas utilities by the Washington Department of Ecology is for the benefit of the customers of the natural gas utilities).

[24] Public Hearing: SB 5126 - Concerning the Washington Climate Commitment Act before the Washington State Senate Environment, Energy & Technology Committee (Jan. 19, 2021) (Statement of Annabel Drayton, NW Energy Coalition). https://tvw.org/video/senate-environment-energy-technology-committee-2021011336/?eventID=2021011336.

[25] RCW 70A.65.130.

## III. THE COMMISSION SHOULD REJECT THE UNSUPPORTED SUGGESTION OF JEA THAT THE COMMISSION ISSUE PENALTIES FOR ANY "VIOLATION" OF THE COMMISSION ORDER TO PROPOSE A RISK-SHARING MECHANISM IN THIS PROCEEDING

**Q. Does PSE wish to address the suggestion of JEA that the Commission "should issue penalties for PSE's violation of Commission order to propose a risk-sharing mechanism"[26]?**

A. Yes. The suggestion is disappointing. PSE has participated in good faith in all aspects of this issue. In spite of considerable differences of opinion among various interested parties about what "risk" the risk-sharing mechanism is designed to "share" and other details, PSE has offered two distinct concepts for Commission consideration in the context of the CCA tariff filings. The first concept was to work with interested parties in the process of PSE's next integrated system plan to develop specific incentive or penalty thresholds that tie to the associated goals for investment, emissions reductions, or demand reductions that would apply to either PSE, customers, or both. The second mechanism is described in the Prefiled Direct Testimony of Christopher T. Mickelson, Exh. CTM-1CT, in this proceeding. It is true that PSE consistently accompanied these risk-sharing proposals with objections to the implementation of such a mechanism because PSE believes such a mechanism is neither consistent with the CCA nor necessary. PSE has good reasons for these objections

[26] McCloy, Exh. LM-1T., at 17:8-9.

and is well within its regulatory and legal rights to voice these objections and concerns before the Commission.

## IV. PSE HAS DESIGNED SCHEDULE 111 TO COMPLY WITH THE CCA REQUIREMENT TO ELIMINATE THE COST-BURDEN FOR LOW-INCOME CUSTOMERS

**Q. Does PSE agree that the Commission should consider equity when determining whether a risk sharing mechanism is in the public interest?**

A. Yes.

**Q. Does PSE agree with JEA's suggestion that, in light of equity considerations, the Commission should choose to allocate the majority of the risk (associated with CCA compliance) to PSE?[27]**

A. No. JEA fails to explain how it draws that conclusion. Testimony of JEA simply refers to "serious public interest and equity factors at play"[28] without enumerating those factors, explaining how PSE's proposed risk sharing mechanism proposal fails to consider equity, or how JEA's proposal considers equity.

**Q. Is PSE considering equity in process for compliance with the CCA?**

A. Yes. PSE has designed Schedule 111 to comply with the CCA requirement to eliminate the cost-burden for low income customers, and the Commission has approved that schedule. The legislature determined that a balancing of the equities

[27] *See* McCloy, Exh. LM-1T at 16:1-15.
[28] *Id*. at 10.

would result in no additional cost pressure for low-income customers, and PSE has faithfully delivered that result. Additionally, as part of the tariff filing proposed in this proceeding, PSE sought and gained approval for the use of no-cost allowance revenue to invest in low-income, highly impacted, and vulnerable community customers' projects to reduce natural gas emissions through electrification measures. The Commission approved[29] PSE's proposal to spend $7.7 million in 2024 auction proceeds from the consignment of no-cost allowances for targeted decarbonization projects for low-income residential customers, multi-family customers with low-income customers or in named communities, and small business customers in named communities, consistent with statutory provisions of the CCA.[30] The targeted decarbonization projects in 2024 include discrete projects through partnerships with existing programs or planned projects of other utilities and not-for-profit organizations to maximize impact of PSE's CCA decarbonization programs in 2024, as well as provide funding for Community Action Partnership Agencies to support capacity building for their low-income and named community electrification programs. Although these programs are not lowest reasonable cost decarbonization actions, PSE is using the flexibility provided by the legislature in the provision of no-cost allowances to use some of the revenues to accelerate electrification for low-

[29] *WUTC v. Puget Sound Energy*, Docket UG-230968, Order 01 Complaint and Order Suspending Tariff Revisions; Allowing Rates Subject to Later Review and Refund at ¶ 16 (Dec. 22, 2023).

[30] RCW 70A.65.130(2)(b); *see also* WAC 173-446-300(2)(b)(iii)(A).

income and named community customers who would otherwise be unable to afford acting.

**Q. Does JEA demonstrate how its proposed risk-sharing mechanism supports equity?**

A. No. In fact, the risk-sharing mechanism proposed by JEA would appear to assign a high degree of risk to PSE in purchasing allowances as costs rise. Because the mechanism does not consider recovery of costs associated with other compliance mechanisms, such as emissions reductions, the mechanism would appear to incentivize PSE to invest in emissions reduction actions, even if those actions were far more expensive than purchasing compliance instruments. These actions would raise rates for all PSE customers and have a direct and negative impact on those customers in highly impacted and vulnerable communities that are less able to take actions to reduce their emissions.

## V. RECOMMENDATIONS AND CONCLUSION

**Q. What are PSE's recommendations regarding Commission adoption of a risk-sharing mechanism in this proceeding?**

A. PSE recommends that the Commission decline to order a risk-sharing mechanism in this proceeding. The CCA does not require the Commission to impose a risk-sharing mechanism, and the concept has been addressed and rejected by the Washington legislature. Moreover, as discussed in the Prefiled Rebuttal Testimony of Jamie L. Martin, Exh. JLM-1T, and the Prefiled Rebuttal Testimony

of Todd A. Shipman, Exh. TAS-1T, a risk-sharing mechanism for CCA compliance will likely increase PSE's risk vis-à-vis similarly situated natural gas utilities, thereby increasing PSE's cost of capital and increasing costs and decreasing equitable outcomes for PSE's customers. Instead, PSE recommends that the Commission order a transparent and efficient process for reporting, documentation, and prudence review of CCA compliance costs, consistent with the process utilized in California, as discussed in the Prefiled Rebuttal Testimony of Jason Kuzma, Exh. JK-3T. Such a process would afford interested parties and the Commission the ability to evaluate the prudence of PSE's CCA compliance activities.

If the Commission were to determine that a risk-sharing mechanism for CCA compliance costs to be necessary, PSE recommends that the Commission adopt the risk-sharing mechanisms proposed by PSE in the Prefiled Direct Testimony of Christopher T. Mickelson, Exh. CTM-1CT, because it is the only risk-sharing mechanism that is fully developed and able to be implemented without additional design considerations and without providing significant increased risk to customers.

**Q. Does that conclude this prefiled rebuttal testimony?**

A. Yes.