

Agenda Date: October 26, 2023
Item Number: A5

Docket: UG-230756
Company: Puget Sound Energy

Staff: Chris McGuire, Regulatory Analyst – Energy Rates and Services
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Recommendation

Commission Staff recommends the Commission take no action, thereby allowing the revised tariff sheets, filed by Puget Sound Energy (PSE or Company) on September 15, 2023, as revised on October 12, 2023, in Docket UG-230756, to go into effect on November 1, 2023, by operation of law.

Summary of Filings

On September 15, 2023, PSE filed with the Washington Utilities and Transportation Commission (Commission), in Docket UG-230756, proposed revisions to rates under natural gas Tariff WN U-2, Schedule 111, Greenhouse Gas Emissions Cap and Invest Adjustment. The revised tariff sheets 1111-D through K bear an effective date of November 1, 2023.

In this filing, PSE seeks to incorporate into Schedule 111 rates the Climate Commitment Act (CCA) allowance costs and auction proceeds that the Company deferred for the period January 1, 2023, through September 30, 2023. PSE proposes to revise Schedule 111 to (1) revise the charge rate to collect \$158.0 million in deferred expenses related to allowance purchases, and (2) revise the credit rate to return to customers \$132.0 million in deferred revenues related to proceeds from no-cost allowances consigned to auction.

The net effect of the proposed revisions is a \$27.2 million increase in annual revenues, or 2.13 percent. A typical residential customer using 64 therms per month would see an increase of \$2.36 per month, or 2.38 percent. Known Low-Income (KLI) customers would receive a credit that fully offsets the increase in the charge rate, resulting in a \$0.00 rate change.

On October 12, 2023, in this same docket (Docket UG-230756), PSE filed proposed revisions to sheets 1111-A and B, which were not included, in the Company's initial filing. The purpose of the proposed revisions to Sheets 1111-A and B is to (a) include the definition of Opt-In Entity, and (b) extend the amount of time in which a customer may provide evidence that they are a registered Covered Entity or Opt-In Entity from within 90 days to within 150 days of the initial effective date of Schedule 111.

Background

Climate Commitment Act. On April 24, 2021, the Washington State Legislature passed the CCA through Engrossed Second Substitute Senate Bill 5126, codified as RCW 70A.65. The CCA

established a “cap and invest” program that sets a declining cap on greenhouse gas emissions (GHGs) from covered entities, including natural gas utilities, and is intended to reduce emissions in the state by 95 percent by 2050.¹ Under the CCA, in 2023 natural gas companies receive no-cost allowances equal to 93 percent of baseline emissions, with the allocation decreasing 7 percent per year thereafter.² While natural gas companies such as PSE are allocated allowances at no-cost, in 2023 they must consign 65 percent of those no-cost allowances to auction, with the amount required to be consigned to auction increasing 5 percent per year thereafter.³ Therefore, for 2023, natural gas utilities must obtain allowances to cover as much as 72 percent of their covered emissions. Covered entities can purchase allowances through auctions sanctioned by the Department of Ecology or on the secondary market.

Petition Re: January-September 2023 Deferrals. On February 28, 2023, the Commission entered Order 01 in Dockets UE-220974 and UG-220975, granting PSE’s petition for deferred accounting treatment, beginning January 1, 2023, for costs and proceeds associated with the purchase and consignment of emissions allowances.

Initial Schedule 111 Tariff filing. On June 9, 2023, in Docket UG-230470, PSE filed with the Commission revisions to its natural gas tariff WN U-2, proposing a new tariff schedule (Schedule 111) that would allow the Company to pass through to customers going forward allowance costs and auction proceeds. On July 31, 2023, PSE filed replacement pages for its proposed Schedule 111, which, among other modifications, added language indicating that the charges and credits identified in Schedule 111 that the State Carbon Reduction Charge, and the State Carbon will commence on October 1, 2023. On August 3, 2023, the Commission entered Order 01 in Docket UG-230470, allowing PSE’s proposed Schedule 111 to become effective.

Petition Re: October-December 2023 Deferrals. On August 10, 2023, the Commission entered Order 01 in Docket UG-230471, granting PSE’s petition for deferred accounting treatment, allowing Schedule 111 to operate as a pass-through tariff for the costs and proceeds associated with the purchase and consignment of emissions allowances going forward. Order 01 specified that the requested accounting treatment would begin on the date the rates become effective for the pass-through tariff schedule, thus replacing the accounting treatment previously granted in Order 01 of Docket UG-220975.

Current filing. On September 15, 2023, in the instant docket (Docket UG-230756), PSE filed revisions to Schedule 111 rates to pass through to customers allowance costs and auction proceeds deferred for the period January 1, 2023, through September 30, 2023, under the accounting treatment the Commission granted in Order 01 of Dockets UE-220974 and UG-220975.

¹ RCW 70A.45.020.

² WAC 173-446-210(1). Each allowance is equivalent to one metric ton of GHGs.

³ RCW 70A.65.130(2)(a).

Discussion

Cost of Service Ratemaking

The primary objective of cost-of-service ratemaking is to align rates with the cost of providing service in a given period. Thus, with respect to the CCA, in any given year, the objective should be to pass through to ratepayers the allowance costs and auction proceeds allocated to that same year. For example, the charges and credits under PSE's Schedule 111 in 2023 should reflect the cost of compliance (including the allowance costs and auction proceeds) in 2023.

PSE's previous Schedule 111 filing, which the Commission allowed to go into effect per Order 01 of Docket UG-230470, established Schedule 111 as a pass-through tariff for the estimated allowance costs and auction proceeds for the period October 1, 2023, through December 31, 2023, and with rates effective over that same period. Therefore, the allowance costs and auction proceeds allocated to the remainder of 2023 (i.e., January through September) – which PSE deferred under the accounting treatment authorized by Order 01 of Dockets UE-220974 and UG-220975 – have yet to be passed through to ratepayers. PSE now proposes to revise Schedule 111 rates to capture the costs and proceeds from January 1, 2023, through September 30, 2023.

Commission staff (Staff) believes PSE's request to pass allowance costs and proceeds for the remainder of 2023 onto ratepayers at this time is appropriate as it seeks to align to the extent practicable the charges and credits under Schedule 111 in 2023 with the allowance costs and proceeds allocated to 2023. The deferral balances that PSE was authorized to record between January 1, 2023, and September 30, 2023, accumulated because there was no mechanism for passing amounts through to ratepayers over that period. With the Commission authorizing PSE's Schedule 111 to go into effect in Docket UG-230470, a mechanism is now in place enabling PSE to pass those deferred amounts onto customers. Staff believes that passing these costs and proceeds onto ratepayers now rather than, for example, waiting until PSE's next general rate case, would reduce or eliminate potential intergenerational inequities.

No Prudence Determination Necessary at this Time

The Commission should note that the examination of final and actual calendar year 2023 costs and proceeds does not occur in this filing. The costs and proceeds at issue in this filing represent the portion of *projected* costs and proceeds for calendar year 2023 allocated to January 1, 2023, through September 30, 2023. Therefore, there is no need at this time to examine the prudence of the amounts PSE includes in this filing, as this filing does not include final, actual costs of compliance for calendar year 2023. Prudence should be examined when the actual cost of compliance is known, which might not be until the first CCA compliance period (i.e., 2023-2026) has concluded.

Consideration of Alternative Cost Recovery Approaches Not Necessary at this Time

Staff does not believe that this is the filing where the Commission should consider alternative cost recovery approaches, such as through general rate cases. Such proposals are more

appropriately considered within an adjudicative proceeding. Staff believes that in the near term, it is important to maintain a tracking and true-up mechanism that attempts to align rates in any given year for the estimated cost of service for that same year. Such a mechanism reduces the potential for significant intergenerational inequity and allows for regular rate adjustments that could be necessary to manage price volatility as the allowance market develops. At this early stage of CCA operation, there is a high degree of uncertainty regarding the price utilities will sell no-cost allowances for at auction and the price utilities ultimately will need to pay for allowances at auction or on the secondary market. As a general matter, tracking and true-up mechanisms are appropriate to use when the costs the utility will actually pay are highly uncertain because, for example, they are a function of volatile market prices.

Low-Income Assistance

In Order 01 of UG-230470, the Commission required PSE to enroll 70,000 additional gas low-income customers in bill assistance by January 1, 2024.⁴ Staff has reviewed the Company's workpapers and has confirmed that the calculation of revenue requirement associated with credits from auction proceeds accounts for the additional low-income customers the Commission required PSE to enroll. PSE's workpapers assume that 70,000 additional gas low-income customers would be enrolled in bill assistance by January 1, 2024.

Revisions to Sheets 1111-A and B

Staff believes the additional tariff revisions to sheets 1111-A and B that PSE submitted to this docket on October 12, 2023, are appropriate. Extending the amount of time for customers to provide evidence that they are a registered Covered Entity or Opt-In Entity will allow customers more time to work with the Department of Ecology to obtain and provide such evidence. Adding the definition of Opt-In Entity is also appropriate, as the existing tariff has no such definition. The Company explains that the definition was included in the Company's initial filing proposing Schedule 111 on June 9, 2023, but was inadvertently removed when the Company made a substitute filing on July 31, 2023.

Customer Comments

As of October 19, 2023, Staff have not received any comments from the public on this filing.

Conclusion

PSE's proposed revisions to Schedule 111 are appropriate and should be allowed to go into effect on November 1, 2023, by operation of law.

⁴ Order 01 at 5, ¶20. "PSE must work with its Low-Income Advisory Group between August and October 2023 to either identify additional KLI customers, or to automatically enroll low-income customers in a bill discount or bill assistance program, to reach a target of at least 70,000 participants by January 1, 2024."