

Agenda Date: December 19, 2024
Item Number: A3

Docket: UE-240884
Company: Puget Sound Energy

Staff: Laura Henry, Regulatory Analyst, Energy Rates and Services

Recommendation

Issue an Order suspending the tariff sheets filed in Docket UG-240884 by Puget Sound Energy on November 15, 2024, as revised December 3, 2024, until the adjudication of Docket UG-230968 is finalized allowing the proposed rates to become effective on an interim basis January 1, 2025, subject to refund.

Reason for Recommending the Suspension and Interim Rates

Commission staff (Staff) recommends suspending the filing for two reasons: (1) this docket will benefit from the Commission's resolution of issues relating to PSE's risk-sharing mechanism in Docket UG-230968, and (2) Staff requires additional time to analyze the revised tariff sheets filed by PSE, which involve multiple true ups, revision to forecasting method, and compliance items.

Staff recommends allowing the rates to take effect on an interim basis because it does not want ratepayers to forego credits, they would be entitled to receive for January 2025 under PSE's revision request while awaiting the outcome of adjudication involving the risk-sharing mechanism.

Summary of the Filing

On November 15, 2024, in Docket UG-240884, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) proposed revisions to rates charged under its natural gas Tariff WN U-2, Schedule 111, the Greenhouse Gas Cap and Investment Adjustment, filing replacement pages on December 3, 2024.

The primary purpose of this tariff filing is to request cost recovery for an increase to the state-required Climate Commitment Act allowance costs through the State Carbon Reduction Charge and to also provide an increase to the pass back of auction proceeds through the State Carbon Reduction Credit (Credit). Additionally, this filing asks the Commission to approve multiple trueups, a revisions to forecasting method, and measures for compliance with previous orders, as detailed below.

This revision will decrease Company revenues by \$61 million. The revenue requirement for 2025 for the changes in Schedule 111 including the trueups discussed below would result in an estimated refund of \$2.0 million. Overall, this proposal represents an average decrease of 5.37

percent for all customers affected by this tariff change. For a typical residential customer connected to the system as of July 25, 2021, using 64 therms per month, the decrease amounts to \$3.51 per month or 3.75 percent.

Background

Under Washington’s Climate Commitment Act, codified in chapter 70A.65 RCW, natural gas companies receive no-cost allowances equal to 86 percent of baseline emissions in 2024, though 70 percent of those no-cost allowances must be consigned to auction. Covered gas utilities such as PSE can purchase allowances through auctions operated by the Department of Ecology or on the secondary market to cover the remainder of their emissions.

RCW 70A.65.130(b) provides “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.”

On August 3, 2023, the Commission entered Order 01 in Docket UG-230470, allowing PSE to establish Schedule 111, to include a tracking and true-up function, to pass through to customers projected allowance costs and auction proceeds. The accounting treatment enabling PSE to operate Schedule 111, the Greenhouse Gas Cap and Investment Adjustment, as a tracking and true-up mechanism was approved by the Commission in Order 01 in Docket UG-230471 on August 10, 2023.

Risk Sharing Mechanism

Order 01 in Docket UG-230471 also required PSE to propose a risk-sharing mechanism for PSE’s proposed revision to Schedule 111. PSE submitted its proposal for a risk sharing mechanism in Docket UG-230968 on November 22, 2023, as revised on December 19, 2023. On December 22, 2023, the Commission found that proposal insufficient, initiating an adjudication concerning the risk-sharing mechanism. It also allowed PSE’s Schedule 111 proposed rates to go into effect on an interim basis effective January 1, 2024, subject to refund, pending the Commission’s final determination of Docket UG-230968.

Decarbonization Program

In Order 01, Docket UE-230968 (December 22, 2023), the Commission approved PSE’s revised proposal to spend \$7.7 million in 2024 auction proceeds from the consignment of no-cost allowances for targeted decarbonization projects for low-income customers, multi-family customers with low-income customers or in named communities, and small business customers in named communities, consistent with statutory provisions.

On November 15, 2024, contemporaneous with this filing, PSE filed its first Decarbonization Program Annual Report describing its investments in the Decarbonization Program as required

by Order 01 in Docket UG-230968. Staff reviewed the report and responded with a Letter of Compliance for the content describing investments and spending in 2024, but Staff declined to review forward-looking elements of the report, which were outside the scope of the report ordered by the Commission.

On November 22, 2024, The Energy Project and the Northwest Energy Coalition requested that the Commission “not use an expedited compliance filing process to review or approve Puget Sound Energy’s proposals for future decarbonization program design, budget, goals, or questions for the evaluation process,” calling for a more “deliberate, public process.” Staff also considers the Report informative to this docket for the revision to Schedule 111.

Request

These Schedule 111 revisions represents a \$61.0 million decrease in revenue impact from the prior rate period which would result in an estimated refund of \$2.0 million to ratepayers for 2025. The reasons for the \$61.0 million decrease are an estimated \$14.5 million increase in the allowance purchases and auction proceeds from amounts set for 2024. This increase is offset by an estimated \$75.5 million over-collection for the 2023 and 2024 periods when all trueups are included.

Components of this true-up calculation are: a true- up of previously estimated price and emissions assumptions (\$38 million); a refund for Business & Occupations Taxes that were eliminated under Engrossed House Bill 2199 (\$6.5 million); accrued interest payable to customers (\$5.6 million) and over-collection for the 2023-24 period (\$25.4 million).

Discussion

Staff cannot recommend the Schedule 111 rates to go into effect without qualification until the adjudication in Docket UG 230968 is final and PSE incorporates the risk sharing mechanism in Schedule 111. PSE requests compliance confirmation on multiple issues in the accounting used for the Greenhouse Gas Cap and Investment Adjustment. Staff cannot verify the reasonableness of PSE’s accounting and forecasting decisions in this filing until the risk sharing mechanism is applied and the overall effect on credits is understood. Here are the changes to accounting requested:

- revisions to the definition of Small Business for the purposes of this tariff schedule;
- true ups of forecasted to actual Climate Commitment Act allowance holdings and allowance purchase prices for 2024;
- a new method for calculating forecasts for purchase prices based on the Department of Ecology’s Allowance Price Containment Reserve price that has not been used in the past or by other utilities;
- accounting for the inclusion of 50,000 low-income customers automatically enrolled but not self-attested in the Bill Discount Reduction Program per Order 02, UG-230470; and
- accounting for the return of \$14.4 million in nonvolumetric credits to customers per Order 01, para 16 in UG-230968.

Further, Staff sees this filing as an omnibus request combining important policy issues concerning Schedule 111 and the interpretation of the Climate Commitment Act with compliance and rate issues. As noted, the Energy Project and Northwest Energy coalition have weighed in on some of these issues and expressed concerns.

Untested Method of Forecasting Allowance Prices

With regard to PSE's proposed new method for forecasting allowance prices, the CCA states the Commission must approve the investor owned utilities' forecasting method. PSE has not offered any rationale for the proposal here, other than that the previous one is inadequate. Staff observes that under PSE's proposed method, PSE's forecasted price used for rate purposes would likely result in a value higher than average actual purchase price. (The Allowance Price Containment Reserve was only triggered once in the four auctions in 2024 while PSE also has the option of expanding its purchases on the secondary market).

Customer Credits under Proposal

At the same time, the proposed revisions anticipate significant credits to residential customers, industrial and commercial customers, and industrial and commercial transportation customers throughout 2025. For example in January 2025, the credit due to the average residential customers would be \$16.09; to the average industrial and commercial customer, \$84.99; and to the average industrial and commercial transportation customer, \$148.62.

To permit customers to see these benefits and avoid disruptions in billing practices, the Commission should allow the rates to go into effect on an interim basis, subject to refund, pending a final determination by the Commission on the risk sharing mechanism and completion of the review of the filing

Recommendation

Staff recommends the Commission suspend the tariff sheets filed by Puget Sound Energy on November 15, 2024, in Docket UE-240884 until the adjudication of Docket UG-230968 is finalized, while allowing the proposed rates to become effective on an interim basis from January 1, 2025, subject to refund.