



Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
pse.com

Received
Records Management
May 10, 2023

May 10, 2023

Filed Via Web Portal

Ms. Amanda Maxwell, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: Commission-led workshop series on the Climate Commitment Act, Docket U-230161

Dear Ms. Maxwell:

Puget Sound Energy (“PSE”) provides the following comments to the Washington Utilities and Transportation Commission (“Commission”) in response to the Notice of Opportunity to File Written Comments (“Notice”) issued in Docket U-230161 on April 10, 2023.

The Climate Commitment Act (“CCA”) became effective January 1, 2023. Utilities are already required to take compliance actions and are incurring compliance costs. Time is of the essence for Commission consideration and guidance on the myriad decisions needed for effective CCA implementation.

The following provides PSE’s specific responses to the questions posed in the Notice.

1. Do you have any thoughts, concerns, or suggestions on the proposed work plan?

PSE has concerns about the scope and timing of the draft work plan. As detailed in the response to the next question, there are many complicated elements of CCA implementation that would benefit from Commission consideration and guidance. The implementation of the law is complex and challenging. And, the current statute and associated administrative rules have many elements that are yet to be decided or resolved which has created much uncertainty. In addition, based on PSE’s outreach to date, there will surely be opposing opinions on the particular implementation decisions, the resolution of which will not be achieved without Commission guidance. Considering all of this, three workshops will not be sufficient to cover the topics adequately and provide time for necessary understanding and discussion.

Furthermore, a process that is anticipated to conclude in December of this year is already one full year into implementation of the CCA. Delays on utility cost recovery will have multiple undesirable outcomes, including higher costs and impacts to customers as increasingly large

deferred balances are recovered on top of ongoing costs and detrimental impacts to utility credit ratings.

PSE recommends adding workshops and acceleration of the overall schedule for the work plan. We also recommend that the Commission consider adopting an incremental approach, where, rather than waiting for a single complete rulemaking or guidance document at the conclusion of the process, the Commission would issue guidance on topics as they are considered, to allow more timely direction on specific elements.

Finally, due to concerns arising from the high costs of CCA compliance obligations on the gas system, PSE is currently drafting a tariff to begin recovering the costs of CCA compliance for 2023. We anticipate a need to file a revised tariff by November 2023 to ensure a rate effective date for 2024 costs and revenues by the beginning of next year. The work plan and associated guidance should remain flexible to ensure that near-term actions utilities have already taken prior to guidance are not penalized as a result of the timeframe for Commission consideration of CCA implementation issues.

2. What are the most important issues for the Commission to address during this proceeding?

The following issues would benefit from consideration during this proceeding. These issues are provided in order of importance relative to timing.

Including CCA costs in Customer Rates – Electric & Natural Gas

There are several important elements to be considered when including CCA costs in customer rates. Due to the nature of the four year compliance periods, as well as the ability to purchase allowances across a range of vintages, costs will certainly need to be estimated and trued up for ratemaking purposes. The Commission should consider how much guidance to provide to utilities regarding the methods and pricing associated with CCA cost recovery.

Certain customers may not incur costs on their utility bill associated CCA compliance, such as those customers that fall under a CCA exemption or have their own CCA compliance obligations. It is also important to consider how costs for customers that participate in voluntary renewable energy programs should be treated.

Finally, uncertainty and ambiguity around the Department of Ecology (“Ecology”) methodology for the annual determination of the allocation of no-cost allowances to electric utilities creates considerable complications and uncertainty for how utilities should approach mitigating costs to customers, understanding the ultimate scale of the cost impacts, and evaluating approaches for cost recovery.

Revenue from Consignment of Allowances & Low-Income Customers –Natural Gas

The statute directs natural gas utilities to use revenues from the sale of consigned allowances at auction for the benefit of ratepayers [customers] to first eliminate any additional cost

burden to low-income customers from the implementation of the CCA.¹ For any remaining revenue after the low-income customer burden is eliminated, WAC 173-446-300(2)(iii)(A) provides that:

(A) Revenues from allowances consigned by natural gas utilities and 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. Investor-owned utility compliance with this subsection will be determined by the utilities and transportation commission. Nothing in this subsection amends the utilities and transportation commission's jurisdiction over investor-owned utilities.

This policy directive raises numerous questions that require UTC engagement including:

- 1) How are low-income customers to be defined and identified and what mechanism(s) should be used to eliminate any additional cost burden to low-income customers from the implementation of the CCA?
- 2) How should utilities plan for the long-term use of allowance revenue for this purpose given that allowance revenue will decline over time reaching zero by 2045?
- 3) If non-volumetric credits are provided to customers after the low-income customer burden is eliminated, how should these credits be calculated and distributed?
- 4) If utilities are to implement actions as permitted in the rule language above, what decision-making framework should utilities utilize to determine prudent investments of allowance revenue?
- 5) Overall, how should decisions be made between various options for allowance revenue allocation?
- 6) How are “small businesses” to be defined and identified?
- 7) How should utilities consider the equitable distribution of benefits and burdens between different customers when making decisions regarding the use of allowance revenue?

Other Implementation Expectations

Does the Commission have any specific guidance or expectations for CCA implementation, particularly around managing short and long term costs for customers? How will these expectations be balanced with the intent of the legislature to reduce carbon emissions? Does the Commission expect to issue any guidance or expectations regarding utility participation in auctions or the accounting and reporting associated with consigned allowances? Does the Commission have any guidance or expectations on programs Ecology should fund with their auction revenues to mitigate the burden on utility customers such as low-income targeted electrification?

¹ RCW 70A.65.130 (2)(a)

CCA Confidentiality Requirements

WAC 173-446-317 requires utilities to abide by strict confidentiality requirements:

Auctions—Prohibited actions.

- (1) Collusion among bidders and/or market manipulation are prohibited.*
- (2) To prevent bidder collusion and minimize the potential for market manipulation, a registered entity registered to participate in an auction may not release or disclose any bidding information including, but not limited to:
 - (a) Intent to participate or refrain from participating in an auction;*
 - (b) Auction approval status;*
 - (c) Intent to bid;*
 - (d) Bidding strategy;*
 - (e) Bid price or bid quantity; or*
 - (f) Information on the bid guarantee provided to the financial administrator.**
- (3) No party shall coordinate the bidding strategy of more than one auction participant.*

Is it possible to comply with the law and share information with the commission about auction expenditures and revenue? If so, what guidelines need to be put into place in meetings, presentations, and filings at the Commission to ensure that these requirements are followed?

Imports Associated with Centralized Markets

The CCA directs Ecology, in consultation with the Washington Department of Commerce (“Commerce”) and the Commission, to develop a methodology for addressing imported electricity used to serve Washington customers associated with a centralized electricity market by October 2026.²

Ecology established rules defining the electricity importer for the first compliance period in the Western Energy Imbalance Market (“WEIM”) as the “*purchasing entity located or operating in Washington that receives the delivery of electricity transacted through the energy imbalance market*”³ in order to provide clarity for market participants and to accommodate a tariff filing by the California Independent System Operator.

However, this rule will need refinement to accurately identify and assign emissions to WEIM entities and emissions associated with any future centralized markets in the region. While the emissions associated with the WEIM for most entities are modest in magnitude, resolving this will be pivotal to the greenhouse gas accounting design of other market initiatives.

PSE encourages the Commission to convene a joint technical workshop, or series of workshops, with the Commerce, Ecology and the California Air Resources Board to develop a methodology for accurately identifying and assigning emissions associated with WEIM transactions and transactions in future centralized markets used to serve Washington customers.

² RCW 70A.65.080 (1)(c)

³ WAC 173-446-040 (3)(d)(iv)

Education/Awareness for Utility Customers

Customer education and awareness of the CCA requirements and the associated costs and benefits will be the key to transparent and equitable implementation. The Commission, Ecology and Commerce, along with utilities and other interested parties, should collaborate about how to educate, raise awareness, and gather input and feedback about the CCA and its impacts on customers.

Linkage with California – Electric & Natural Gas

The CCA directs Ecology to develop rules that allow for linkage of Washington’s cap-and-invest programs with similar programs in other jurisdictions.⁴ In previously submitted comments, the IOUs have recommended that Ecology develop regulations that both preserve and maximize the possibility of linking with other programs. Specifically, IOUs view linkage as essential to maximize market efficiencies that reduce the most GHG emissions at the lowest cost possible. As such, we believe program linkage is in the best interest of our customers to establish a cost-effective means for both electric and natural gas utilities to meet their respective compliance obligations under the CCA and as such should be pursued as soon as possible and no later than 2026 before the end of the first compliance period.⁵ The Commission has an understanding of and expertise with customer rate exposure, including low-income customers, which provides a unique perspective on the economic importance of linkage, and should be represented in the consultative rulemaking process.

3. Do you have any other comments you would like to offer on the implications of the CCA for IOUs and ratepayers?

The final Ecology no-cost allowance allocation methodology for electric utilities will mitigate but not eliminate costs to electric customers from the CCA. So customers will incur additional costs based on the CCA in addition to increasing costs associated with the Clean Energy Transformation Act. The CCA implementation costs on the gas system will be dramatic. Additionally, on the gas system, allowance revenue, and the ability to mitigate rate impacts, will ramp down over time.

PSE is analyzing decarbonization investments for the gas system that will lower CCA compliance costs, however, these actions are costly and will have implementation ramp periods. Additionally, the interconnected nature between gas and electric systems means that electrification actions taken to decarbonize the gas system will result in increasing costs on the electric system associated with generation and transmission resources needed to serve these loads, in addition to CCA compliance costs. The UTC should consider to what extent utility allowance revenue is an appropriate source of funding for decarbonization investments, or whether state revenue derived from the overall program is a more appropriate source of funding for certain decarbonization investments related to the electric and natural gas systems.

⁴ RCW 70A.65.060(3)

⁵ RCW 70A.65.060(3)

Thoughtful execution of compliance cost recovery, decarbonization actions and other implementation decisions is necessary to maintain affordable energy services for all customers and, particularly, to ensure the equitable distribution of burdens and benefits.

Thank you for the opportunity to provide comments on the draft work plan for the Commission-led workshop series on the Climate Commitment Act. Please contact Wendy Gerlitz at (425) 462-3051 for additional information about these comments. If you have other questions contact me at (425) 456-2142.

Sincerely,

/s/ Jon Piliaris

Jon Piliaris
Director, Regulatory Affairs
Puget Sound Energy
PO Box 97034, BEL10W
Bellevue, WA 98009-9734
425-456-2142
Jon.Piliaris@pse.com

cc: Lisa Gafken, Public Counsel
Sheree Strom Carson, Perkins Coie