

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	DOCKET UG-220759
CASCADE NATURAL GAS CORPORATION,	ORDER 01
Petitioner,	GRANTING AMENDED ACCOUNTING PETITION, SUBJECT TO CONDITIONS
For an Order Authorizing Deferred Accounting Treatment of Expenses Relating to the Implementation of the Climate Commitment Act	

BACKGROUND

- 1 On October 14, 2022, Cascade Natural Gas Corporation (Cascade or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition (Petition) in Docket UG-220759 seeking an accounting order under WAC 480-07-370 authorizing Cascade to utilize deferred accounting treatment for costs associated with the Company’s compliance with the Climate Commitment Act (CCA) in RCW 70A.65. On February 14, 2023, Cascade filed an amended petition (Amended Petition).
- 2 In 2021, the Washington State Legislature passed the CCA through Engrossed Second Substitute Senate Bill 5126 into law, codified as RCW 70A.65, to reduce greenhouse gas (GHG) emissions. Also referred to as “Cap and Invest,” the law establishes a declining cap on GHG emissions from covered entities and is intended to reduce emissions in the state by 95 percent by 2050.¹ Under the CCA, electric investor-owned utilities (IOUs) receive no-cost allowances equal to their forecasted emissions based upon clean energy targets under the Clean Energy Transformation Act and other sources.² Gas IOUs receive no-cost allowances equal to 93 percent of baseline emissions, with the allocation decreasing 7 percent annually.³
- 3 As such, electric and gas IOUs must either purchase allowances to cover their remaining emissions, or reduce emissions in other ways, according to CCA targets. There are costs

¹ See Climate Commitment Act - Washington State Department of Ecology.

² WAC 173-446-230.

³ WAC 173-446-240.

associated with purchasing allowances and reducing emissions in other ways to comply with the CCA, and there are revenues associated with consigning allowances at auction.

4 In its Amended Petition, Cascade requests approval for deferred accounting treatment for revenues associated with consignment of allowances and various costs associated with CCA compliance, including hiring a consultant to assist with best compliance practices, other incremental administrative costs, purchasing allowances, energy efficiency programs for natural gas transportation customers, the acquisition of renewable natural gas beyond the cost of brown gas, and possible investment in research and development related to hydrogen. The Company estimates first-year costs could be in the range of \$2-\$40 million. Cascade requests an interest rate of the actual cost of debt, updated semi-annually.

5 Commission staff (Staff) recommends that the Commission grant the request. Staff believes that deferred accounting treatment is reasonable because CCA costs are not currently included in the Company's approved rates, and these costs are likely to be significant.

6 Staff emphasizes that when seeking future cost recovery, the burden of proof falls upon the Company in demonstrating that each of these various types of costs are direct incremental costs that were prudently incurred. As such, Staff makes no predetermination about the prudence or reasonableness of the costs in Cascade's petition at this time. Further, Staff notes it is the Company's responsibility to ensure that any filing to recover deferred costs is consistent with the CCA's requirements.

7 The Petition came before the Commission at its regularly scheduled open meeting on February 23, 2023. The Commission received written comments on the Petition from the Alliance of Western Energy Consumers (AWEC), The Energy Project (TEP), the Public Counsel Unit of the Attorney General's Office (Public Counsel), and the NW Energy Coalition. The Commission also heard oral comments during the open meeting from Public Counsel, TEP, and AWEC, as well as the Company.

8 Public Counsel did not object to granting the Petition, but recommended that the Commission explicitly exclude research and development (R&D) costs from deferral, stating that they are speculative costs that are generally not passed on to customers, and should not be included in a deferral to FERC account 182.3, which generally includes costs that are likely to be recouped in rates. Public Counsel also recommended that the Commission clarify that the Company should use the after-tax cost of debt and require that carrying charges for revenues and costs should be tracked separately. Public Counsel

emphasized that while it agrees there should be a way to defer and track costs associated with the CCA, any deferral should be strictly short-term and that after this trial deferral period, CCA costs should be embedded into rates, ideally in the Company's next GRC. Public Counsel also stressed that it believes that any consideration of prudence of these expenses should be subject to thorough review and public participation.

9 TEP recommended that the Commission direct the Company to separately track revenues and costs, so that the revenues can be appropriately prioritized to low-income customers. TEP further recommended that the Commission direct the Company to wait to provide any customer credits until the Commission issues guidance, ideally resulting from collaborative workshops with the Commission, the IOUs, and interested parties. TEP agrees that R&D costs should be excluded from the deferral and suggested a sunset provision on the deferral to require the Company to seek the costs in rates according to a defined timeframe.

10 AWEC also did not oppose the deferral but agreed with Public Counsel and TEP regarding R&D cost exclusion and the need for prudence review. In addition, AWEC also expressed concern that industrial energy customers who also have compliance obligations under the CCA may end up being double charged for compliance if the Company seeks to include its CCA compliance charges in the rates for those industrial customers. AWEC suggested that this would be an issue to consider at the workshops suggested by TEP.

11 The Company stated that while it believes that its current R&D projects would be the lowest-cost way to help its customers decarbonize, it is not opposed to having those costs treated differently. The Company also stated that it had already planned on tracking costs and revenues separately and does not oppose the commenters' recommendation to mandate such tracking.

DISCUSSION

12 We grant Cascade's Amended Petition, subject to conditions. We agree that the requirements of the CCA create an extraordinary circumstance as this is a cost beyond the Company's control and may be material. We believe that deferred accounting treatment is appropriate, and that accruing interest at the Company's actual cost of debt, approved in its last general rate case, is fair.

13 We agree with Public Counsel and TEP that R&D costs are speculative costs that generally should not be passed along to customers and should be excluded from deferral.

While R&D costs may help the Company better comply with the CCA in the long run, such costs are not directly associated with CCA compliance and should not be included with costs intended to be recovered in rates.

- 14 With the exclusion of R&D costs, we find it appropriate for the Company to track its incremental CCA compliance costs in FERC account 182.3 and its CCA proceeds of no-cost allowances in FERC Account 254. We also find that the Company should separately track the cost of debt carrying costs associated with those costs and revenues.
- 15 We therefore grant the Petition subject to the conditions that the Company must: 1) exclude R&D costs from its deferred costs, 2) track the incremental costs in FERC account 182.3 and the no-cost allowance proceeds in FERC account 254, and 3) separately track the carrying costs accrued on the unamortized amounts booked to FERC account 182.3 and 254 using the approved cost of debt from its last general rate case.
- 16 We add that when seeking future cost recovery, the burden of proof falls upon Cascade to demonstrate that each of these various types of costs listed are direct incremental costs that were prudently incurred, and that revenues collected from the consignment of allowances were used in accordance with all CCA requirements. In granting the Amended Petition, we do not make any judgement or determination about the specific costs at this time.
- 17 We also direct the Company to work with Staff and interested persons to collaborate in workshops to discuss the issues related to cost recovery that were raised at the open meeting and in comments submitted in this Docket including methods of crediting customers, how to prioritize low-income customers, ongoing cost tracking, double-counting of industrial customers with separate compliance requirements, sunset on deferrals, and procedures for determining prudence and cost-recovery.

FINDINGS AND CONCLUSIONS

- 18 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including natural gas companies.
- 19 (2) Cascade is a public service company regulated by the Commission, providing service as a natural gas company.

- 20 (3) The Commission has jurisdiction over the subject matter of this proceeding and over Cascade.
- 21 (4) WAC 480-07-370(3) allows companies to file petitions including that for which Cascade seeks approval.
- 22 (5) Staff has reviewed the Amended Petition in Docket UG-220759 including related work papers.
- 23 (6) Staff recommends the Commission grant the Amended Petition.
- 24 (7) This matter came before the Commission at its regularly scheduled meeting on February 23, 2023.
- 25 (8) After reviewing Cascade's Amended Petition filed in Docket UG-220759 on February 14, 2023, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Amended Petition should be granted, subject to the conditions set out in paragraph 15.

ORDER

THE COMMISSION ORDERS:

- 26 (1) Cascade Natural Gas Corporation's Amended Petition for an Order Authorizing Deferred Accounting Treatment of Expenses Relating to the Implementation of the Climate Commitment Act is granted, subject to the conditions that the Company must: 1) exclude research and development costs from its deferred accounting, 2) track the costs in FERC account 182.3 and the revenues in FERC account 254, and 3) separately track the carrying costs associated with those costs and revenues using the approved cost of debt.
- 27 (2) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order granting Amended Petition be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.

- 28 (3) The Commission retains jurisdiction over the subject matter and Cascade Natural Gas Corporation to effectuate the provisions of this Order.

DATED at Lacey, Washington, and effective February 28, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner