Agenda Date: December 21, 2023
Item Numbers: A6

Docket: UG-230968
Company: Puget Sound Energy

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

Recommendation

Commission Staff recommends that the Commission suspend the tariff sheets filed by Puget Sound Energy on November 22, 2023, in Docket UG-230968, and set the matter for hearing.

Reason for Recommending Suspension

PSE did not include in its filing a proposal for a risk-sharing mechanism, as it was required to do per Order 01 of Docket UG-230470. Additionally, PSE's proposed rates inappropriately assign the full $23 million cost of decarbonization projects to 2024 ratepayers, even though the Company expects to incur those costs over a three-year period, from 2024 through 2026.

Summary of Filing

On November 22, 2023, in Docket UG-230968, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission), proposed revisions to rates under natural gas Tariff WN U-2, Schedule 111, Greenhouse Gas Emissions Cap and Invest Adjustment. The revised tariff sheets bear an effective date of January 1, 2024.

In its filing, PSE seeks to incorporate into Schedule 111 rates Climate Commitment Act (CCA) allowance costs and auction proceeds that the Company forecasts for calendar year 2024. PSE proposes to revise Schedule 111 to revise the charge rate to collect $213.6 million in forecasted expenses related to allowance purchases and revise the credit rate to return to customers $142.1 million in forecasted revenues related to proceeds from no-cost allowances consigned to auction.

In this filing, PSE also seeks to: (1) add new language to the tariff enabling the Company to set aside a portion (up to $23 million) of the Company's revenues from no cost allowances to fund decarbonization projects and (2) update the rates pertaining to amounts deferred from January 2023 through September 2023.

The net effect of the proposed revisions is a $45.3 million increase in annual revenues, or 4.62 percent. A typical residential customer using 64 therms per month would see an increase of $1.91 per month, or 2.43 percent. Known low-income customers would receive a credit that fully offsets the increase in the charge rate, resulting in a $0.00 rate change.

<u>Background</u>

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 2024 natural gas companies receive no-cost allowances equal to 86 percent of baseline emissions,[2] though 70 percent of those no-cost allowances must be consigned to auction.[3] Covered gas utilities such as PSE can purchase allowances through auctions sanctioned by the Department of Ecology or on the secondary market to cover the remainder of their emissions.

Initial Sch. 111 Tariff filing (RE: costs and proceeds projected for Oct–Dec 2023)

On August 3, 2023, the Commission entered Order 01 in Docket UG-230470, allowing PSE to establish Schedule 111 as a pass-through tariff with a tracking and true-up function, allowing the Company to pass through to customers going-forward (projected) allowance costs and auction proceeds for the remainder of 2023 (October through December). The accounting treatment enabling PSE to operate Schedule 111 as a tracking and true-up mechanism was granted by the Commission in Order 01 in Docket UG-230471, which was entered on August 10, 2023.

Subsequent Sch. 111 Tariff filing (RE costs and proceed deferred for Jan–Sep 2023)

On September 15, 2023, in 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 Docket UG-220975. The Commission allowed those rates to go into effect on November 1, 2023.

Current filing (Docket UG-230968)

In this filing, PSE seeks to revise Schedule 111 rates to reflect CCA allowance costs and auction proceeds that the Company forecasts for calendar year 2024.

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[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

Funding Decarbonization Projects with Auction Proceeds

In this filing, PSE proposes to set aside $23 million of the Company's proceeds from the auction of no-cost allowances to fund decarbonization projects. PSE intends to design decarbonization projects for (1) Identified Low-Income Customers and multi-family premises with Identified Low Income Customers or in a Named Community,[4] and (2) small business customers in a Named Community. Staff believes PSE's proposal is consistent with RCW 70A.65.130 which allows revenues from allowances sold at auction to be used to minimize cost impacts on low-income, residential, and small business customers through actions that include decarbonization.[5]

However, although Staff believes using allowance proceeds to fund decarbonization projects is reasonable and within the bounds of RCW 70A.65.130, PSE's proposal to withhold the full $23 million from customer credits in 2024 is inappropriate. In workpapers PSE supplied to support the Company's estimate of $23 million for decarbonization projects, PSE indicated that it expected to spend $1.8 million in 2024, $6.1 million in 2025, and $15.0 million in 2026. Given that PSE expects to incur these costs over three years and does not expect to incur most of these costs until 2026, it would be unfair to ratepayers in 2024 to bear the full $23 million burden. In Staff's opinion, it would be more reasonable for PSE to spread these costs over three years of rates and, accordingly, set aside $7.6 million in auction proceeds annually from 2024 through 2026. Given that in PSE's proposed Schedule 111 rates the Company has removed the full $23 million from the non-volumetric customer credit in 2024, Staff cannot recommend that the Commission allow the proposed rates to go into effect as filed.

Proposed Rates

Staff has reviewed PSE's proposed Schedule 111 rates and supporting work papers and, with the exception of the issue discussed immediately above, finds the rates to reasonably reflect PSE's costs of allowance purchases and proceeds from the sale of allowances in calendar year 2024. If PSE is willing to submit replacement tariff pages reflecting a credit rate that spreads the $23 million for decarbonization projects over three years (2024 through 2026), Staff believes that the resulting rates would be fair, just, reasonable, and sufficient.

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[4] "Named Community" means either a Highly Impacted Community or Vulnerable Populations as defined in RCW 19.405.020

[5] RCW 70A.65.130(2)(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."

Risk-Sharing Mechanism

In Order 01 of Docket UG-230470 – which is the order wherein the Commission allowed PSE's original Schedule 111 tariff sheets to go into effect – the Commission required PSE to "work with parties to develop a proposal for a risk sharing mechanism" and, further, to "propose a risk sharing mechanism in its October filing for Commission review."[6] Given the context of Order 01 (i.e., PSE's proposed Schedule 111) and the comments from several interested parties in that docket in support of establishing a cost-sharing mechanism for the cost of allowances,[7] it is clear that the Commission intended for PSE to propose a risk sharing mechanism (rather than a cost sharing mechanism) in its annual Schedule 111 tariff revision which was filed in November (rather than October).

While PSE did include with its filing a document that it characterizes as "describing a Risk-Sharing Mechanism,"[8] the document is largely a description of PSE's opposition to establishing a risk-sharing mechanism, and where it does purport to include a "risk-sharing mechanism proposal," the document does not appear to describe a risk-sharing mechanism at all, as Staff understands the term. PSE proposes that "[i]n its next IRP, PSE could provide a decarbonization strategy that would include decarbonization actions to comply with the CCA.[9] These actions would have associated goals for investment, emissions reductions, or demand reductions that apply to either PSE, customers, or both. PSE would work with interested parties to develop specific incentive or penalty thresholds that tie to the associated goals in preparing the filing."[10]

The *risk* at issue pertains to the risk that the future, actual CCA allowance costs will differ from the forecasted costs included in the Schedule 111 baseline. A *risk-sharing mechanism*, therefore, would allow the cost variances above and below the baseline to be shared by the Company and its ratepayers. A risk-sharing mechanism is a performance incentive mechanism that incentivizes the utility to discover cost efficiencies and optimize its strategy to comply with the law at the lowest reasonable cost.

PSE's filing does not include a proposal for such a mechanism and, therefore, does not comply with Order 01 of Docket UG-230470.

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[6] Docket UG-230470, Order 01, at 5-6 ¶ 22. (Emphasis added)

[7] Docket UG-230470, Order 01, at 3 ¶ 11, at 4 ¶ 13, *see also* at 4 ¶ 14, and at 4 ¶ 16.

[8] Docket UG-230968, PSE Cover Letter at 3 (November 22, 2023).

[9] *See* Docket UG-230470 at 15 ¶ 35.

[10] *Id.*

Customer Comments

As of December 13, 2024, Staff have not received any comments from the public on this filing.

Conclusion

PSE's filing did not include a proposal for a risk-sharing mechanism, which was required per Order 01 of Docket UG-230470, and the rates PSE proposes inappropriately assign three years of decarbonization project costs to one year of ratepayers in 2024. Therefore, the tariff revision should be suspended, and the matter should be set for hearing.