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

Re: *In the Matter of Puget Sound Energy Revision of Natural Gas Tariff Sheets*
WN U-2 –Advice No. 2023-24, Docket UG-230470

Dear Director Maxwell:

Puget Sound Energy (“PSE”) respectfully provides the following comments to the Washington Utilities and Transportation Commission (“Commission”) regarding PSE’s application to establish a new gas service tariff schedule (Docket UG-230470) to allow PSE to recover the allowance costs and pass back the auction proceeds, as mandated by the Climate Commitment Act (“CCA”) in RCW 70A.65, also known as the Greenhouse Gas Emissions Cap and Invest Program (“Cap and Invest Program”). In its July 3, 2023 clarification, the Commission provided a revised date of July 18, 2023 to provide written comments. PSE apologizes for the late filing of these comments, but PSE has undertaken several informal conversations with Commission Staff and Interested Parties and felt it would be helpful to provide a written summary of the informal commitments PSE has made in those discussions. Therefore, PSE respectfully submits this letter in the spirit of assisting the Commission in its deliberations.

The decision to submit these comments stemmed from a conversation with Commission Staff who indicated a desire to have documentation in this docket of the engagement process leading up to the tariff filing and the manner in which PSE integrated Interested Party comments into the filing. PSE took a proactive approach to engaging with ten Interested Parties over four months from February through May 2023 in advance of filing the proposed tariff on June 9, 2023. A description of the process can be found below. Furthermore, PSE would like to provide clarity of its intention that, if approved, the tariff would not be setting precedence for how the 2023 deferred costs or the future CCA compliance costs or auction proceeds would be recovered or utilized. PSE fully expects the tariff to evolve over time as the Commission provides further guidance. PSE also plans to continue to hold additional conversations with Interested Parties, and in particular with the Low-Income Advisory Committee (“LIAC”) regarding approaches to

identifying a larger portion of low-income customers. This is one example of the direct action PSE is taking in response to concerns voiced from Interested Parties.

PSE's 2023 CCA engagement with Interested Parties:

PSE shares Interested Parties' concerns about timing and complexity of CCA implementation. The Cap and Invest Program final rules were adopted on September 29, 2022,¹ and the program started on January 1, 2023 which means annual compliance costs started accruing over seven months ago and will be ongoing into the future. PSE's concern has been that the longer it waits on starting recovery of CCA's annual compliance costs, the higher the initial rate increases to customers from the start of cost recovery for the Cap and Invest Program would be.

In order to be proactive on these issues, PSE organized a series of workshops with Interested Parties. First, PSE provided an overview of the CCA, then PSE focused conversations on the gas utility issues germane to preparation of a tariff, highlighting the difference between immediate-term versus longer-term decision making that the Commission would be able to provide guidance on, and then focusing on discussing key immediate-term decision-making elements to iteratively start tackling CCA compliance, one compliance year at a time.

PSE held the following CCA workshops with Interested Parties:

- February 21, 2023: overview of the Climate Commitment Act and key dates; tentative plan for PSE's engagement with Interested Parties on CCA over Q2-Q3 2023;
- March 17, 2023: estimating possible 2023 natural gas CCA costs and rate impacts; eliminating any additional cost burden to low-income customers from the implementation of the CCA;
- April 12, 2023: continue discussions regarding eliminating any additional cost burden to low-income customers from the implementation of the CCA; brainstorming on CCA projects (projects, criteria, frameworks);
- May 2, 2023: continue discussions regarding eliminating any additional cost burden to low-income customers from the implementation of the CCA; summary of ideas from brainstorming on CCA projects; overview of key elements of planned proposed Gas 2023 CCA compliance costs filing.

The Interested Parties that were invited and/or participated in PSE's CCA workshops are:

- ◊ Alliance of Western Energy Consumers (AWEC)
- ◊ Climate Solutions (CS)

¹ <https://ecology.wa.gov/Regulations-Permits/Laws-rules-rulemaking/Rulemaking/WAC-173-446>

- ◇ Equity Advisory Group (EAG)
- ◇ Front and Centered (F&C)
- ◇ NW Energy Coalition (NWECC)
- ◇ Public Counsel (PC)
- ◇ Renewable Northwest (RNW)
- ◇ The Energy Project (TEP)
- ◇ Washington Conservation Action (WCA)
- ◇ Washington Utilities and Transportation Commission (WUTC) Staff.

PSE appreciated the active, engaged, and respectful participation by the Interested Parties through all the workshops, and PSE stressed the importance of their feedback to help identify common ground and creative solutions for implementation pathways that would respect all voices.

Key feedback of Interested Parties from PSE’s CCA workshops prior to the filing:

In the proposed gas CCA tariff filing, PSE incorporated key feedback received from Interested Parties:

- 1) PSE confirmed to the Interested Parties that PSE would use the 35% of no-cost allowances available for compliance in 2023, towards compliance in 2023, meaning that the requested overall revenue requirement associated with recovery of compliance costs is lower than the estimated total compliance costs as these allowances used toward compliance would have no cost;
- 2) Interested Parties were concerned about large bill impacts to customers from 2023 CCA compliance costs, therefore, instead of requesting recovery of estimated 2023 full year’s compliance costs in the proposed filing, PSE proposed to recover only August through December 2023 estimated compliance costs; PSE would plan to recover the deferred January through July 2023 compliance costs later;
- 3) To further mitigate the initial rate impacts to PSE customers from the start of the Cap and Invest Program, PSE also proposed to provide a CCA credit using estimated auction proceeds (August – December 2023) to all PSE’s customers (for example, not just residential or small businesses) to be fair and equitable;
- 4) In order to further assist customers with more pronounced seasonality, PSE incorporated seasonal shaping for gas residential customers (Schedule 23) and customers on general commercial and industrial service schedules (Schedules 31 and 31T).

Throughout PSE’s CCA engagement meetings with Interested Parties, PSE reiterated that CCA compliance is a statutory obligation, it is outside of PSE’s control, that the Cap and Invest

Program is already in effect, and there would be annual compliance costs going forward. PSE's engagement was expressly described as being focused on engaging and collaborating with the Interested Parties to come up with reasonable and feasible immediate-term solutions to tackle 2023 compliance cost recovery that the Company has already been incurring on behalf of its customers.

Furthermore, the overarching intent of the CCA is to lower greenhouse gas (GHG) emissions in Washington State. Customers arguably have the largest part to play in the reduction of GHG emissions (whether through lower use or adoption of cleaner alternatives) and the longer it takes for customers to receive the price signals of the program, the less emission reductions will actually occur. Furthermore, it is notable that currently customers are experiencing CCA compliance costs unevenly across their GHG emissions footprint, where they are paying for CCA in some places (like at the gas pump) but not others (like with utilities, currently). PSE believes that it is important to start sending price signals that will reflect the intent of the CCA to incentivize customers to start decreasing their GHG emissions.

Among key feedback from PSE's CCA engagement and in Interested Parties' comments filed on July 3, 2023 has been the topic of identification of low-income customers. PSE understands Interested Parties' concerns about current low participation of customers in gas low-income programs. As PSE presented in the CCA workshops with Interested Parties, PSE has expanded plans to prioritize increasing enrollment of income-qualified customers in all energy assistance programs, through many existing and new initiatives such as integrated program awareness and more targeted campaigns such as to senior citizens and those that are multi-lingual. PSE believes providing comprehensive services for these customers will lead to the best, most equitable outcomes. PSE continues to have compelling accuracy, privacy, and equity concerns and reservations about using third-party purchased data to automatically provide CCA credits that would eliminate those customers' CCA charges. That said, PSE agrees with Public Counsel that this issue requires additional discussions of the approaches to increase enrollment and is an example of how this tariff may evolve after implementation given guidance from the Commission through its workshops.

Another comment that was raised by Interested Parties in comments filed on July 3, 2023 was the idea of a sharing mechanism. However, this feedback was not raised during PSE's CCA engagement meetings with Interested Parties, and PSE and the Interested Parties did not have the opportunity to discuss this issue before filing the proposed tariff. A number of other topics were raised by Interested Parties in their comments filed on July 3, 2023, and PSE looks forward to the continuation of the Commission-led CCA workshops (Docket U-230161) to continue discussing the issues, proposals, and viable CCA implementation pathways.

PSE is open to conditional approval:

Because the Cap and Invest Program started in January 2023, PSE's proposed gas CCA tariff filing was meant to take a focused approach to start recovering natural gas partial 2023 compliance costs in order to preserve cost/emissions causation principle and proactively proposed rate impact mitigation. In the meantime, this would not prohibit PSE, the Commission

and Interested Parties from continuing to have conversations on weightier topics that will shape CCA implementation in the longer-term.

The principle of cost causation is foundational for rate design. In this case, it is important to consider the cost causation principle relevant to CCA, where customers who are causing the emissions should be the ones responsible for the associated CCA compliance cost (and should receive potential associated credits). Therefore, through the proposed tariff, gas customers who would be emitting during August through December 2023, would actually be the ones paying the associated CCA compliance charges and also receiving the CCA auction proceed credits as rate impact mitigation. Since PSE has to rely on forecasts, PSE also proposed a true-up mechanism, but that true-up is expected to be much smaller (than if the tariff were set on a historical basis) so the tie between emissions causation and cost recovery would be preserved as much as possible. As such, PSE believes the tariff filing as proposed would be in the public interest.

PSE would be open to commit to the following conditions as part of the conditional approval of the tariff proposal by PSE:

- 1) If approved, the tariff would be non-precedential;
- 2) Approved tariff terms would be subject to future changes;
- 3) PSE would commit to have additional conversations between conditional approval (estimated July 21, 2023) and mid-October 2023² with LIAC about approaches to identify more low-income customers for the 2024 annual compliance year;
- 4) PSE would commit to have additional conversations with Interested Parties on topics raised by their comments as part of the Commission-led CCA workshop series.

PSE recognizes that the Commission-led workshop series and additional conversations with the LIAC about approaches to identify more low-income customers would take time, and for this reason, PSE believes it is in the interest of our customers and the Company's financial sufficiency to start the collection of CCA gas compliance costs with partial 2023 compliance cost recovery from current customers associated with those compliance costs, while leveraging auction proceeds-based credits to mitigate the initial rate impacts from the start of the Cap and Invest Program.

Thank you for the opportunity to provide comments on PSE's application to establish a new gas service tariff schedule to recover allowance costs and pass back auction proceeds, as mandated by CCA. Please contact Wendy Gerlitz at (425) 462-3051 or Kelima Yakupova at (425) 462-3588 for additional information about these comments. If you have other questions, contact me at (425) 456-2142.

² For 2024 annual compliance recovery to start on January 1, 2024, PSE would target to file a proposed tariff in early November in order to allow Interested Parties and the Commission more time than a standard 30-day filing for extended review and potential comments.

Sincerely,

/s/ Jon Piliaris

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