

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKET UG-230470

ORDER 01

ALLOWING TARIFF REVISIONS
TO BECOME EFFECTIVE SUBJECT
TO CONDITIONS

BACKGROUND

- 1 In 2021, the Washington State Legislature passed the Climate Commitment Act (CCA), 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.
- 2 In February 2023, Puget Sound Energy (PSE or Company) began holding meetings with interested persons to discuss the CCA and associated implementation issues. The intent of these meetings was to educate listeners on the CCA, as well as obtain input on potential design considerations for tariffs that would collect and distribute costs and proceeds related to the CCA.¹
- 3 On June 9, 2023, PSE filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective natural gas tariff WN U-2 proposing a new tariff schedule (Schedule 111) that would allow the Company to recover allowance costs and pass back to customers auction proceeds mandated under the CCA. The proposed tariff would be effective from August 1, 2023, until December 31, 2023.
- 4 Under the proposed tariff revisions, PSE would recover costs from allowances corresponding to projected emissions from August to December 2023, and pass back credits from allowance auction proceeds projected to be received in calendar year 2023, but proportional to the August through December timeline. Costs would be recovered through a proposed State Carbon Reduction Charge, which equals the projected amount

¹ See PSE’s CCA Interested Parties [Meeting #1](#), [Meeting #2](#), [Meeting #3](#), [Meeting #4](#).

of costs of allowances PSE needs to comply with the Cap and Invest Program pursuant to RCW 70A.65. Credits would be distributed through a proposed State Carbon Reduction Credit, which equals the projected amount of revenues from allowance sales collected at auction pursuant to RCW 70A.65. The proposed costs and credits will collectively result in a net charge under Schedule 111.

- 5 The proposed tariff reflects a new revenue requirement for the *increase* in costs of \$104.8 million related to the State Carbon Reduction Charge and a new revenue requirement *decrease* of \$87.9 million related to the State Carbon Reduction Credit. The result is an overall net revenue requirement increase of \$16.8 million, which translates to an average increase of 3.23 percent in overall bills for all natural gas customers affected by this tariff change. A typical residential natural gas customer using 64 therms per month would experience an increase of \$3.71 per month or 3.89 percent, while known low-income (KLI) customers would see all increased charges offset by the credit, resulting in a \$0.00 change. The tariff defines KLI customers as those currently taking service under an applicable Bill Discount Rate schedule, those receiving bill assistance under Schedule 129 – Low Income Program, or those who have received bill assistance under Schedule 129 within the last 24 months.
- 6 The tariff also includes a mechanism whereby each year the Company will estimate the net cost of purchasing allowances to comply with the CCA. This includes the cost of purchasing allowances, the amount of revenues from sales of allowances the Company receives, and the amount expected to be collected in rates. Each of these amounts will be trued-up on an annual basis.² This mechanism, as well as the tariff in general, are subject to a related petition for deferred accounting in Docket UG-230471 that is not yet approved and is currently set for consideration at the Commission’s August 10, 2023, open meeting.
- 7 The Commission received written comments from the NW Energy Coalition (NVEC), Climate Solutions, The Energy Project (TEP), Washington Conservation Action (WCA), the Alliance of Western Energy Consumers (AWEC), and the Public Counsel Unit of the Washington Attorney General’s Office (Public Counsel). NVEC, Climate Solutions, WCA, and Public Counsel recommend the Commission reject the proposed tariff revisions. Generally, commenters expressed concern about PSE’s intent to pass through 100 percent of allowance costs to customers, the prudence and accuracy of incurred costs, and the insufficient number of identified KLI customers.

² Proposed schedule 111, 1111-C

- 8 Commission staff (Staff) reviewed the Company’s filing and recommends that the Commission issue an order suspending the tariff revisions and setting the matter for adjudication. Staff believes the quantity of concerns that have arisen in the context of this filing, the first tariff filed for the recovery and pass-back of CCA costs, requires a longer timeline, a transparent schedule, and the process afforded by an adjudicative proceeding.
- 9 This matter came before the Commission at its recessed open meeting on July 21, 2023. The Commission heard comments from Staff, PSE, Public Counsel, NWEC, TEP, AWEC, and Climate Solutions.
- 10 The Company explained that the program is new and the rules governing it are not yet finalized. As such, PSE contends that this filing is not meant to be precedential, but merely intended to start the program for its customers. PSE asserts that the longer the price signal to customers is delayed, the longer it will take for them to respond and reduce their carbon usage. Moreover, PSE does not believe that its customers should be kept in the dark about the costs the Company is incurring on their behalf. The Company stated that it recognizes it must do what it can to cost-effectively reduce its compliance costs on behalf of ratepayers. Finally, in response to TEP’s proposal to use third-party data to identify low-income customers, PSE expressed concern that if it were to use a third-party data source to identify low-income customers there is a risk that ineligible ratepayers could receive credits due to the inaccuracy of those third-party sources.
- 11 Public Counsel raised several concerns, primarily that the tariff revisions as filed place all the risks of the allowance market on customers, thus removing the incentive for the Company to reduce its reliance on allowances. Public Counsel supports further development of NWEC’s proposed cost sharing mechanism. Additionally, Public Counsel raised concerns about identifying the “state carbon reduction charge” and “state carbon reduction credit” as line items, arguing that line items should only be included for those items that benefit customers.
- 12 Public Counsel also has concerns about the Company automatically enrolling customers using third-party data, stating that using data from third-party companies, such as credit rating companies, is highly problematic and potentially prone to error. Public Counsel shares TEP’s concern about enrollment numbers and believes that the Company needs to do more to increase enrollment. Public Counsel supports suspending the proposed tariff revisions and setting this matter for hearing to further address these matter. Finally, Public Counsel argues that if the Commission does approve the proposed tariff, it should do so on an interim basis and should require a refiling of the tariff to address the issues raised. Public Counsel also recommends that any approval should explicitly state that the Commission’s decision is not precedential.

- 13 TEP agrees with Staff that the tariff should be suspended because it does not include a cost sharing mechanism. TEP does not believe the Company should bear the entire cost of compliance but argues that the Company should have some “skin in the game” before cost recovery begins. TEP also recommends that certain low-income customers should be automatically enrolled because PSE’s proposal only provides credits to low-income customers who recently accessed assistance programs. TEP does not advocate that a credit should be given to all 250,000 potentially known low-income customers, but instead that the Company should target its customers with the lowest income. Additionally, TEP did not propose that only data purchased from credit agencies be used. Instead, TEP advocates that the Low-Income Advisory Group should develop a process for identifying eligible customers.
- 14 NWEC argues that customers should bear most of the costs but proposes a cost sharing mechanism. Under its proposal, customers would bear 100 percent of the allowance costs up to an adjusted baseline and the sharing mechanism would apply if the Company’s emissions exceeded the pre-established baseline. Additionally, the proposal includes a shared savings mechanism that allows the Company to share in the savings if emissions are below the baseline and the Company is not overearning. NWEC argues that it is the Company’s duty to reduce emissions at the lowest reasonable cost, and it echoes TEP’s position that the Company needs “skin in the game.” NWEC argues that the Company, as a publicly regulated entity, must use some of its own capital to make investments to reduce emissions.
- 15 AWEC supports approval of the tariff as filed due to the short-term nature of the tariff and the understanding that its approval would be non-precedential. AWEC would like the opportunity, either through the CCA workshop series in Docket U-230161 or through an investigation of this tariff, to further discuss the issues identified by other commenters.
- 16 Climate Solutions also recommends suspending the tariff to allow for more discussion of the issues raised in this Docket. Climate Solutions states that it is particularly concerned about the current proposal to pass on 100 percent of compliance costs to customers. Climate Solutions argues that it is ultimately the utility’s responsibility to comply with decarbonization and that it supports the cost-sharing mechanism that NWEC proposes. Finally, Climate Solutions agrees that PSE needs to enroll more customers into its low-income assistance programs.

DISCUSSION AND DECISION

- 17 We approve PSE’s proposed tariff revisions subject to several conditions. We agree with the Company that the tariff revisions are necessary to allow the Company to begin to recover the costs of implementing the CCA, which will mitigate the impact of a ballooning future rate impact to customers. We require modifications, discussed in detail below, to address Staff’s and other parties’ concerns.
- 18 First, we agree with Public Counsel that all costs recovered through this tariff should be subject to further review and possible refund in a future proceeding. Attaching this condition will ensure full transparency and provide all parties and the Commission an opportunity to evaluate those costs for inclusion in rates.
- 19 Second, we agree with Public Counsel that PSE should not include the proposed “carbon reduction charge” as a line item on customer bills. Public Counsel correctly observes that including all program charges on customer bills would quickly result in lengthy and confusing bills. Additionally, only those charges or credits that inure to the benefit of customers should be included as line items on customer bills. For that reason, we require the Company to include the “carbon reduction credit” on customer bills, which will also signal an economic incentive for consumers to reduce their own carbon emissions.
- 20 Third, PSE must work with its Low-Income Advisory Group between August and October 2023 to either identify additional KLI customers, or to automatically enroll low-income customers in a bill discount or bill assistance program, to reach a target of at least 70,000 participants by January 1, 2024.³ We agree with the commenters that PSE’s proposal is insufficient, and therefore require the Company to find ways to increase its enrollment of eligible customers to ensure it complies with the CCA’s requirement to eliminate any additional cost burden associated with statutory implementation to low-income customers.⁴
- 21 Fourth, the effective date of the proposed tariff revisions is extended to August 15, 2023, to afford the Company time to address the mechanics of showing the carbon reduction credit on customer bills.
- 22 Finally, we require PSE to work with interested parties through the CCA workshop series in Docket U-230161 and with its Low-Income Advisory Group to develop a risk sharing mechanism rather than a cost sharing mechanism. Although we understand the parties’

³ This target is inclusive of PSE’s as-filed target of 10,000 customers for this period.

⁴ See RCW 70A.65.130(2)(a).

arguments for a cost sharing mechanism, CCA costs are imposed on the utility and are mandatory. We recognize, however, that the proposed tariff inappropriately places all the risks associated with CCA compliance through allowances on PSE's natural gas customers. Accordingly, we require PSE to work with parties to develop a proposal for a risk sharing mechanism that appropriately balances the compliance risk between the Company and its natural gas customers. The CCA is meant to serve as a price signal to both utilities and their customers, encouraging both to modify their behavior to reduce carbon emissions. The mechanism should share risk such that all parties are encouraged to reduce their emissions, and, in turn, the costs required for CCA compliance. We require PSE to propose a risk sharing mechanism in its October filing for Commission review.

23 We note that our approval of the tariff revisions is not precedential. The proposed tariff schedule, which addresses highly complex issues under the CCA, is the first of its kind. As CCA markets and implementation continue to develop, the tariff will correspondingly require further development. The tariff revisions at issue are short in duration and are intended only to begin the program for natural gas customers.

FINDINGS AND CONCLUSIONS

- 24 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, and practices of public service companies, including natural gas companies.
- 25 (2) PSE is a natural gas company and a public service company subject to Commission jurisdiction.
- 26 (3) On June 9, 2023, PSE filed revisions to its currently effective natural gas tariff WN U-2, proposing a new tariff schedule (Schedule 111) that would allow the Company to recover allowance costs and pass back auction proceeds mandated under the CCA.
- 27 (4) This matter came before the Commission at its recessed meeting on July 21, 2023.
- 28 (5) After reviewing PSE's proposed tariff revisions filed in Docket UG-230470 on June 9, 2023, and giving due consideration to all relevant matters and for good cause shown, the Commission finds the proposed tariff revisions are consistent with the public interest and should be allowed to go into effect on August 15, 2023, subject to the conditions set forth in paragraphs 17-23 of this Order.

ORDER

THE COMMISSION ORDERS:

- 29 (1) Puget Sound Energy's proposed tariff revisions, filed on June 9, 2023, are approved subject to the conditions discussed set forth in paragraphs 17-23 of this Order, and will become effective on August 15, 2023.
- 30 (2) Puget Sound Energy must file revised tariff pages consistent with the directions provided in this Order.
- 31 (3) The Commission retains jurisdiction over the subject matter and Puget Sound Energy to effectuate the provision of this Order.

DATED at Lacey, Washington, and effective August 3, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner