BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY

for a Declaratory Order Clarifying CCA Electrification Requirements

Docket UG-240884

Petition of Puget Sound Energy for a Declaratory Order Pursuant to WAC 480-07-930 and RCW 34.05.250

I. INTRODUCTION AND RELIEF REQUESTED

1. Pursuant to WAC 480-07-930 and RCW 34.05.250, Puget Sound Energy ("PSE") respectfully requests that the Washington Utilities and Transportation Commission (the "Commission") issue a declaratory order setting forth PSE's obligations under the Climate Commitment Act ("CCA") in light of Initiative Measure No. 2066¹ ("I-2066") and the final order in PSE's 2024 General Rate Case ("GRC").² In 2023, the Commission approved³ PSE's plan to allocate \$23 million in estimated proceeds from the consignment of no-cost allowances⁴ ("CCA proceeds") to fund targeted voluntary electrification and decarbonization projects to be implemented during the years 2024 through 2026. PSE set aside the first installment of \$7.7 million from the 2024 CCA proceeds for targeted voluntary decarbonization projects for

Washington State, Secretary of State. Initiative Measure No. 2066. Filed April 5, 2024. https://www2.sos.wa.gov/_assets/elections/initiatives/finaltext_3177.pdf

Washington Utilities and Transportation Commission ("WUTC") v. Puget Sound Energy, Dockets UE-240004 & UG-240005 (consolidated), Order 09 (Jan. 15, 2025) (the "2024 GRC Final Order").

WUTC v. Puget Sound Energy, Docket UG-230968, Order 01 (Dec. 22, 2023).

⁴ RCW 70A.65.070.

residential low-income customers, multi-family premises with low-income customers or in named communities⁵, and small business customers in named communities. In December 2024, the Commission approved⁶ \$7.7 million from the 2025 CCA proceeds to continue PSE's 2025 Voluntary CCA Decarbonization Programs. Subject to Commission approval, PSE planned to utilize the same amount of no-cost allowance revenue on targeted voluntary decarbonization programs for 2026.

2. However, in the Commission's 2024 GRC Final Order, the Commission rejected PSE's proposal for a decarbonization tracker and a Phase 2 of a Targeted Electrification Pilot, in part due to the restrictions imposed by I-2066, which voters approved⁷ in the November 5, 2024 general election. Pursuant to I-2066, the Commission may not "approve, or approve with conditions, a multiyear rate plan that requires or incentivizes a gas company or large combination utility to terminate natural gas service to customers", or "approve, or approve with conditions, a multiyear rate plan that authorizes a gas company or large combination utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by

Defined by RCW 19.405.020 as either a highly impacted community or vulnerable population. PSE's 2021 Clean Energy Implementation Plan (CEIP) (Chapter 3, available at: https://www.cleanenergyplan.pse.com/library) provides the following definitions:

[•] Highly Impacted Communities (HIC): A community designated by the Department of Health based on the cumulative impact analysis required by RCW 19.405.140 or a community located in census tracts that are fully or partially on "Indian country," as defined in 18 U.S.C. Sec. 1151.

Vulnerable Populations (VP): Communities that experience a disproportionate cumulative risk
from environmental burdens due to: Adverse socioeconomic factors, including
unemployment, high housing and transportation costs relative to income, access to food and
health care, linguistic isolation, and sensitivity factors, such as low birth weight and higher
rates of hospitalization.

WUTC v. Puget Sound Energy, Docket UG-240884, Order 01 (Dec. 20, 2024).

Washington State, Secretary of State. November 5, 2024 General Election Results. Last updated on 11/26/2024. https://results.vote.wa.gov/results/20241105/measures-all.html

implementing planning requirements that would make access to natural gas service cost-

prohibitive."8

3. PSE respectfully requests that the Commission issue a declaratory order pursuant

to WAC 480-07-930 declaring that PSE may continue to spend its 2025 CCA proceeds for its 2025

Voluntary CCA Decarbonization Programs. As discussed herein, pursuant to RCW 34.05.240, the

Commission should issue a declaratory order because PSE is confronted with uncertainty that

necessitates resolution and an actual controversy exists, this uncertainty adversely affects PSE,

and no measurable adverse effects to others (including the public) will arise from the order

requested.

4. The following rules or statutes may be brought into issue by this Petition:

RCW 34.05.240, RCW 80.01.040(3), RCW 80.28.425, RCW 70A.65.130(2)(b); WAC 173-446-

300(2)(b); RCW 80.86.020(4)(v)(ii), and WAC 480-07-930.

5. PSE is engaged in the business of providing electric and gas service within the State

of Washington as a public service company and is subject to the regulatory authority of the

Commission. Its full name and mailing address for the purpose of this Petition for Declaratory

Order are:

Puget Sound Energy, Inc.

Attn: Wendy Gerlitz

Director of Regulatory Policy

P.O. Box. 97034

Bellevue, Washington, 980096-9734

Wendy.Gerlitz@pse.com

425-462-3051

PSE's representatives for the purposes of this Petition are:

Puget Sound Energy, Inc.

Attn: Jason Kuzma, WSBA #31830

8 RCW 80.28.425(12) & (13).

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II. BACKGROUND FACTS

6. In 2021, the Washington State Legislature passed Senate Bill 5126, also known as

the CCA or "Cap-and-Invest Program," codified at chapter 70A.65 RCW, to reduce greenhouse

gas ("GHG") emissions in Washington State. The Cap-and-Invest Program went into effect on

January 1, 2023. The first four-year compliance period of the Cap-and-Invest Program is calendar

years 2023 through 2026.¹⁰

7. The CCA establishes an economy-wide, comprehensive, market-based system

intended to reduce overall greenhouse gas emissions in Washington State. PSE is a covered entity

and must participate in the compliance program by acquiring compliance instruments (allowances

or offsets) for both its electric and natural gas operations on behalf of its customers and facilities.

The CCA is a market-based program that is based on using price signals to encourage

decarbonization by people and facilities that have emissions. The CCA annually provides for

natural gas utilities to receive no-cost allowances in decreasing quantities over time "[f]or the

benefit of ratepavers." Natural gas investor-owned utilities receiving these no-cost allowances

must adhere to several requirements when using them:

⁹ RCW 70A.65.070.

¹⁰ RCW 70A.65.070(1)(a).

¹¹ RCW 70A.65.130(1).

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- First, utilities must consign a portion of their no-cost allowances to auction for the benefit of their customers, deposit the allowances for compliance, or a combination of the two.¹²
- Second, utilities must use revenue generated from no-cost allowances at minimum to eliminate additional cost burden to low-income customers, and additional revenue may be used to provide non-volumetric credits on ratepayer utility bills, prioritize low-income customers, or minimize cost impacts on low-income, residential, and small business customers through weatherization, decarbonization, conservation and efficiency services, bill assistance, and other actions.¹³
- Third, customer benefits provided from natural gas utilities' no-cost allowances must be in addition to existing legal requirements or requirements found in other statutes or rules.¹⁴
- 8. In November 2023, PSE proposed to allocate \$23 million in estimated no-cost allowance revenue benefits from 2024 to fund targeted voluntary decarbonization projects for low-income customers, multi-family premises with low-income customers and in named communities, and small businesses in named communities, which would be implemented over the 2024-2026 period. This proposal was informed through PSE's engagement with interested parties in 2023 about CCA implementation topics, the which indicated that many parties were supportive of PSE investing CCA no-cost allowance revenue in decarbonization projects that targeted willing low-income customers and named communities. PSE also proposed to work with interested parties

¹² WAC 173-446-240(3).

¹³ See RCW 70A.65.130(2)(b); see also WAC 173-446-300(2)(b)(iii)(A).

¹⁴ See RCW 70A.65.130(2)(b); see also WAC 173-446-300(2)(b)(iii)(B).

WUTC v. Puget Sound Energy, Docket UG-230968, PSE Filing Letter at 2 (Nov. 22, 2023). PSE's Natural Gas Tariff Filing proposed revisions to rates under natural gas tariff Schedule WN U-2, Schedule 111, Greenhouse Gas Emissions Cap, and Invest Adjustment.

In order to be proactive on complex CCA implementation issues, PSE organized a series of meetings and workshops with interested parties in 2023 to discuss various gas utility CCA implementation issues germane to preparation of a tariff filing related to CCA compliance costs and no-cost allowance revenues. For more information about PSE's 2023 CCA Implementation Issues workshop meetings, please see PSE's Comments filed in Docket UG-230470 on July 19, 2023.

over the first quarter of 2024 to develop a program design for the 2025 Voluntary CCA

Decarbonization Programs.¹⁷

9. In December 2023, the Commission approved to allocate \$23 million in estimated

proceeds from the consignment of no-cost allowances to fund targeted voluntary electrification

and decarbonization projects to be implemented during the years 2024-2026, setting aside

\$7.7 million in estimated proceeds annually for no-cost allowances during that period. 18 PSE set

aside the first installment during the 2024 rate period. The Commission also approved PSE's

proposal to work with interested parties to develop the program design in the first quarter of 2024

and required PSE to file (a) updated plans after the consultation with interested parties and

(b) annual status reports on decarbonization projects.

10. On May 30, 2024, PSE submitted a compliance filing in Docket UG-230968,

confirming that PSE engaged with its Low Income Advisory Committee, along with other

interested parties and advisory groups, such as the Equity Advisory Group, in the first quarter

of 2024, to inform program design. 19 The compliance filing also included the summary of the

program design, informed by the engagement with and supported by the interested parties and

advisory groups.

11. Pursuant to Order 01 in Docket UG-230968, PSE submitted its first annual status

report on 2024 Voluntary CCA Decarbonization Programs on November 15, 2024.²⁰ This report

was both a compliance filing and supported PSE's proposal to allocate another \$7.7 million from

WUTC v. Puget Sound Energy, Docket UG-230968, PSE Filing Letter (Nov. 11, 2023).

¹⁸ WUTC v. Puget Sound Energy, Docket UG-230968, Order 01 (Dec. 22, 2023).

¹⁹ WUTC v. Puget Sound Energy, Docket UG-230968, PSE Compliance Filing – CCA Decarbonization Programs

Program Design (May 30, 2024).

WUTC v. Puget Sound Energy, Docket UG-230968, PSE Compliance Filing – PSE CCA Decarbonization Programs 2024 Annual Report to UTC (May 30, 2024).

Petition of Puget Sound Energy for a Declaratory Order Clarifying CCA Electrification Requirements 2025 CCA proceeds to continue PSE's Voluntary CCA Decarbonization Programs in 2025,²¹ which the Commission approved in December 2024.²²

- 12. As part of PSE's 2022 GRC Settlement Agreement,²³ approved by the Commission,²⁴ PSE agreed to conduct an 18-month Targeted Electrification Pilot ("TEP"). PSE's 2022 GRC Settlement Agreement required PSE to "file a report summarizing the results of the Targeted Electrification Pilot…as a compliance requirement in this docket, no later than January 2025."²⁵ The 2022 GRC Settlement Agreement also required PSE to use its TEP and a Decarbonization Study to inform a Targeted Electrification Strategy ("TES"), and submit the TES by the end of January 2025.²⁶ PSE filed three compliance filings (the Settlement Targeted Electrification Pilot (STEP) Report, an updated Decarbonization Study Summary Report, and PSE's TES) concurrently on January 31, 2025.²⁷
- 13. As part of PSE's 2024 GRC filed with the Commission in February 2024, PSE proposed Targeted Electrification Pilot Phase 2 ("TEP Phase 2"). TEP Phase 2 was proposed for PSE's dual-fuel service customers with a budget of \$22.3 million over the two-year multi-year rate plan for six main components:²⁸
 - (1) Low-Income Heat Pump Direct Installation Pilot;
 - (2) Small Businesses Heat Pump Pilot in Named Communities;

WUTC v. Puget Sound Energy, Docket UG-240884, PSE 2025 CCA Tariff Filing (Nov. 15, 2024).

WUTC v. Puget Sound Energy, Docket UG-240884, Order 01 – Corrected (Dec. 20, 2024).

WUTC v. Puget Sound Energy, Dockets UE-220066, et al., Order 24/10, Appx. A (Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and Green Direct) at Stipulation O, 27-40 ¶ 67 (Aug. 26, 2022) (the "2022 GRC Settlement Agreement").

²⁴ WUTC v. Puget Sound Energy, Dockets UE-220066, et al., Order 24/10 at 19, ¶ 65 (Aug. 26, 2022) (the "2022 GRC Final Order").

²⁵ 2022 GRC Settlement Agreement, *supra* note 23, at Stipulation O, 37-40, ¶ 67.

²⁶ WUTC v. Puget Sound Energy, Dockets UE-220066, et al., Order 33/19 at 3-4, ¶ 16 (Jul. 11, 2024).

WUTC v. Puget Sound Energy, Dockets UE-220066, et al., PSE 2022 GRC Compliance Filings (TES, STEP Report, and Decarbonization Study Summary Report) (Jan. 31, 2025).

 $^{^{28}}$ 2024 GRC Final Order, *supra* note 2, at ¶ 340.

- (3) Multi-Family Heat Pump rebate Pilot in Named Communities;
- (4) Targeted Electrification of Natural Gas-Constrained Geographic Area Pilot:
- (5) Income-Qualified Heat Pump Rebate Pilot; and,
- (6) Commercial and Industrial Targeted Electrification Grant Pilot.
- 14. PSE proposed to recover its proposed TEP Phase 2 in Schedule 141DECARB, Decarbonization Rate Adjustment tracker.²⁹ Schedule 141DCARB would recover incremental decarbonization costs that are not recovered in base rates of the 2024 multiyear rate plan. The Schedule 141DCARB tracker rates would have applied to all electric and natural gas schedules and would have included a return on forecasted rate base, depreciation, income tax, and O&M. Accordingly, PSE proposed that the Schedule 141DCARB tracker remain in place as long as PSE was pursuing decarbonization.³⁰
- 15. In November 2024, after the 2024 GRC's hearing but before the 2024 GRC Final Order issuance, Washington voters passed I-2066.³¹ In the 2024 GRC Final Order, the Commission explained that:

In pertinent part, I-2066 limits the Commission's authority to approve, or approve with conditions, multiyear rate plans. Specifically, section 4 of the initiative amends RCW 80.28.425, adding the following limitations:

- (12) The commission shall not approve, or approve with conditions, a multiyear rate plan that requires or incentivizes a gas company or large combination utility to terminate natural gas service to customers.
- (13) The commission shall not approve, or approve with conditions, a multiyear rate plan that authorizes a gas company or large combination

WUTC v. Puget Sound Energy, Dockets UE-240004, et al., Prefiled Direct Testimony (Nonconfidential) of Susan E. Free, Exh. SEF-1T (Feb. 15, 2024).

²⁰²⁴ GRC Final Order, *supra* note 2, at ¶ 352.

Washington State, Secretary of State. November 5, 2024 General Election Results. Last updated on 11/26/2024. https://results.vote.wa.gov/results/20241105/measures-all.html

utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by implementing planning requirements.³²

16. In December 2024, in the 2024 GRC Final Order, the Commission declined to adopt PSE's proposal for TEP Phase 2 and the decarbonization tracker. In declining to approve PSE's proposal for TEP Phase 2, the Commission stated in its conclusion of law that "PSE's proposal to approve its TEP Phase 2 program may be inconsistent with I-2066"³³ and explained further:

While the Commission does not object to the Company's ongoing electrification efforts where cost-effective, the Commission declines to approve the TEP Phase 2 program as part of this proceeding. In light of I-2066 and its restrictions on approving incentives in a multi-year rate plan for terminating gas service or establishing incentives for fuel switching, the Commission finds it would be prudent for PSE to consult further with its Energy Efficiency Advisory Group to determine whether the TEP Phase 2 proposal requires any further refinement or modification considering the requirements in I-2066, including The Energy Project's proposal to expand the low-income electrification program to include gas-only customers.³⁴

In declining to approve PSE's proposed decarbonization tracker, the Commission explained that "PSE's proposal to create a DCARB tracker is moot with the Commission's rejection of its TEP Phase 2 program, and should be rejected."³⁵

17. TEP Phase 2 was also a component of PSE's TES filed as compliance filing in PSE's 2022 GRC in January 2025.³⁶ Since the Commission did not approve TEP Phase 2 in the 2024 GRC, and since there is no requirement for PSE to implement the TES as filed, at this time PSE does not have any plans to implement the TES elements which were not approved by the

 $^{^{32}}$ *Id.* at ¶ 323.

³³ 2024 GRC Final Order, *supra* note 2, at ¶ 589, Conclusions of Law 39.

 $^{^{34}}$ *Id.* at ¶ 349.

Id. at ¶ 596, Conclusions of Law 46.

WUTC v. Puget Sound Energy, Dockets UE-220066, et al., PSE's 2022 GRC Compliance Filing – TES (Jan. 31, 2025).

Commission. Another significant component of the TES was PSE's 2025 and 2026 Voluntary CCA Decarbonization Programs.³⁷

- 18. In its conclusions of law in the 2024 GRC Final Order, the Commission stated that "the ultimate effects of Initiative 2066 on the Commission's authority in multi-year rate plans is not settled."38
 - 19 Additionally, Section 5(4) of I-2066 states the following related to CCA:
 - (v) Establish that the large combination utility has:
 - (i) Consigned to auction for the benefit of ratepayers the minimum required number of allowances allocated to the large combination utility for the applicable compliance period pursuant to RCW 70A.65.130, consistent with the climate commitment act, chapter 70A.65 RCW, and rules adopted pursuant to the climate commitment act; and
 - (ii) Prioritized, to the maximum extent permissible under the climate commitment act, chapter 70A.65 RCW, revenues derived from the auction of allowances allocated to the utility for the applicable compliance period pursuant to RCW 70A.65.130, first to programs that eliminate the cost burden for low-income ratepayers, such as bill assistance, or nonvolumetric credits on ratepayer utility bills, ((or electrification programs,)) and second to ((electrification)) programs benefiting residential and small commercial customers;

The pertinent CCA language at issue states:

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. The customer benefits provided from allowances consigned to auction under this section must be in addition to existing requirements in statute, rule, or other legal requirements.³⁹

³⁸ 2024 GRC Final Order, *supra* note 2, at ¶ 593, Conclusions of Law 43.

RCW 70A.65.130(2)(b).

Given the interrelation between the CCA, I-2066, Engrossed Substitute House Bill ("ESHB") 1589, the Commission's 2024 GRC Final Order, and the Commission's Order 01 in Docket UG 240884, PSE is filing this Petition to seek clarity from the Commission on whether PSE may to implement the 2025 Voluntary CCA Decarbonization Programs (as they were approved in Docket UG-240884) or whether the 2025 Voluntary CCA Decarbonization Programs as currently designed are inconsistent with I-2066 (as the Commission determined with TEP Phase 2 in the 2024 GRC Final Order).⁴⁰

III. APPROPRIATENESS OF A DECLARATORY ORDER

- 20. Pursuant to WAC 480-07-930 and RCW 34.05.240, the Commission may enter a declaratory order upon a showing:
 - (a) That uncertainty necessitating resolution exists;
 - (b) That there is actual controversy arising from the uncertainty such that a declaratory order will not be merely an advisory opinion;
 - (c) That the uncertainty adversely affects the petitioner;
 - (d) That the adverse effect of uncertainty on the petitioner outweighs any adverse effects on others or on the general public that may likely arise from the order requested; and
 - (e) That the petition complies with any additional requirements established by the agency under subsection (2) of this section.⁴¹

As discussed below, this Petition satisfies the requirements of WAC 480-07-930 and RCW 34.05.240.

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⁴⁰ PSE's 2022 GRC Compliance Filing – TES, *supra* note 36.

The Commission has not established additional requirements under RCW 34.05.240(1)(e) but rather requires that petitions for declaratory order comply with the requirements of RCW 34.05.240(1).

A. Uncertainty Necessitating Resolution

21. The uncertainty to be resolved by this Petition is whether PSE has the right and/or obligation to invest its 2025 CCA Auction proceeds in targeted voluntary electrification and/or decarbonization projects. This question requires interpretation and application of Washington law, Commission's orders, and the Commission's rules. Pertinent part of I-2066 limits the Commission's authority to approve, or approve with conditions, multi-year rate plans relating to involuntarily transition from gas to electricity. As such, the Commission declined PSE's 2024 GRC TEP Phase 2 proposal as it may be inconsistent with I-2066. At the same time, the Commission approved 2025 CCA Decarbonization Programs in a docket which was not a multiyear rate plan proceeding. PSE interprets this to mean that PSE is allowed and required by the Commission to spend up to \$7.7 million of 2025 CCA proceeds on targeted voluntary decarbonization projects, including electrification projects to low-income customers and residential and small commercial customers in named communities. However, there is uncertainty as to whether PSE's 2025 Voluntary CCA Decarbonization Programs investments run afoul of I-2066 restrictions and how the Commission, Commission Staff and other parties interpret this limitation. Interpretation and application of the statute and rule cited above are within the Commission's jurisdiction. With filing this Petition, PSE has paused all of its 2025 Voluntary CCA Decarbonization Programs activities. PSE needs clarity from the Commission whether PSE is allowed to continue spending 2025 Voluntary CCA Decarbonization Programs allocated funds, in light of I-2066.

B. Actual Controversy Arising From the Uncertainty Such That a Declaratory Order Will Not Be Merely an Advisory Opinion

22. This Petition presents an actual controversy. Per Commission Order 01 in Docket

UG-240884, PSE was working to invest its 2025 CCA proceeds into targeted voluntary

electrification/decarbonization projects. However, with filing this Petition, PSE has paused all of

its 2025 Voluntary CCA Decarbonization Programs activities until the Commission is able to issue

the requested declaratory order. The Commission will not be providing "merely an advisory

opinion" but will provide direction on an actual controversy that exists at this time.

C. The Uncertainty Adversely Affects the Petitioner

23. The uncertainty surrounding PSE's right and/or obligation to invest in voluntary

electrification/decarbonization projects adversely affects PSE because it could result in PSE's non-

compliance with Washington law, with the Commission's order in Docket UG-240884, and could

financially impact PSE should the Commission issue a determination of non-prudency and/or

impose associated penalties. PSE believes that it is prudent for it to file this Petition for declaratory

order to seek clarification and in the meantime pause its 2025 CCA Voluntary Decarbonization

Programs activities until a declaratory order is issued by the Commission.

D. The Adverse Effect of Uncertainty on the Petitioner Outweighs any Adverse Effects

on Others or on the General Public That May Likely Arise From the Order

Requested

24. Resolution of the questions raised in this Petition will not result in any adverse

effect to others or the general public. No person is harmed by a Commission determination

clarifying that PSE may continue to invest in its voluntary decarbonization projects. Moreover,

resolution of the controversy and clarity for future transactions will benefit the public.

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IV. RELIEF REQUESTED

25. For the foregoing reasons, PSE respectfully requests that the Commission enter an order declaring that: In light of I-2066, the Commission determined that PSE may still continue to spend its 2025 CCA proceeds for targeted voluntary decarbonization programs, as approved in Docket UG-240884. PSE respectfully requests that the Commission issue the declaratory order within 30 days from the filing date of this petition, pursuant to WAC 480-07-930 and RCW 34.05.250.

DATED this 6th day of February, 2025

By: /s/Jason Kuzma

Jason Kuzma, WSBA #31830 Sophia E. Amberson, WSBA #52528

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