

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Investigation to
Consider the Effect of Inflation on the
Cost of Greenhouse Gas Emissions

DOCKET U-190730

ORDER 01

ADOPTING AN ADJUSTED COST OF
GREENHOUSE GAS EMISSIONS
REFLECTING THE EFFECT OF
INFLATION

BACKGROUND

- 1 The Washington State Legislature enacted legislation in 2019 setting the cost of greenhouse gas emissions¹ and tasked the Washington Utilities and Transportation Commission (Commission) with adjusting the cost to reflect the effects of inflation.² On September 12, 2019, at its regularly scheduled open meeting, the Commission made the first inflation adjustment and subsequently published the adjusted cost of greenhouse gas emissions on the Commission’s website. The adjustment updated the cost of greenhouse gas emissions from 2007 dollars to current dollars per metric ton using the gross domestic product (GDP) price index published by the Bureau of Economic Analysis of the United States Department of Commerce (BEA).
- 2 Commission staff (Staff) recommends that the Commission continue to use the BEA’s GDP price index to adjust the cost of greenhouse gas emissions for inflation. According to Staff, using the BEA’s GDP price index is reasonable because it reflects a broad measure of prices in the economy. This is especially relevant for social cost of carbon considerations because the cost of greenhouse gas emissions implicates the entire economy rather than, for example, a particular subset of costs such as the costs of

¹ The “cost of greenhouse gas emissions” is the term used in the Washington statutory provisions at issue here, RCW 80.28.405 (electricity) and RCW 80.28.395 (natural gas). The U.S. government technical support document referenced in these state law provisions uses the term “social cost of carbon.” While these terms are not synonymous, they are used interchangeably in this order for the purpose of adjusting the inflation rate.

² The social cost of carbon codified in RCW 80.28.405 and RCW 80.28.395 is calculated from the value of 2007 dollars, and each provision requires the Commission to “adjust the costs established in this section to reflect the effect of inflation.”

consumer products. Staff recommends using the GDP price index from the BEA as the inflation factor to update the cost of greenhouse gas emissions from 2007 dollars to current costs, as shown in Table 1, below.

Table 1: Adjusted Cost of Greenhouse Gas Emissions

Year	Social Cost of Carbon Dioxide* (in 2007 dollars per metric ton)	**GDP Index (2007 dollars)	** GDP Index (2019 dollars)	Adjusted Social Cost of Carbon Dioxide* (in 2019 dollars per metric ton)
2010	\$50	92.498	112.348	\$61
2015	\$56	92.498	112.348	\$68
2020	\$62	92.498	112.348	\$75
2025	\$68	92.498	112.348	\$83
2030	\$73	92.498	112.348	\$89
2035	\$78	92.498	112.348	\$95
2040	\$84	92.498	112.348	\$102
2045	\$89	92.498	112.348	\$108
2050	\$95	92.498	112.348	\$115

**Social cost of carbon dioxide in 2007 dollars using the 2.5 percent discount rate, listed in table 2, technical support document: Technical update of the social cost of carbon for regulatory impact analysis under Executive Order No. 12866, published by the interagency working group on social cost of greenhouse gases of the United States government, August 2016.*

***U.S. Department of Commerce Bureau of Economic Analysis Gross Domestic Product Table 1.1.4 Annual Price Indexes (Line 1), last revised May 28, 2020.*

3 Staff recommends publishing the updated cost of greenhouse gas emissions table, Table 1, on the Commission’s website. Staff also recommends that the Commission review the cost of greenhouse gas emissions for inflation annually and make any necessary adjustments, relying on the latest publication of the BEA’s GDP price index available in May of each year.

4 Staff’s recommendations are consistent with its initial recommendations to the Commission regarding the first inflation adjustment, adopted by the Commission on September 12, 2019. The comparison between the current cost of greenhouse gas emissions and the updated cost of greenhouse gas emissions is given in Table 2.

Table 2: Comparison between the current cost and the updated cost

Year	Adjusted Social Cost of Carbon Dioxide (in 2018 dollars per metric ton)³	Adjusted Social Cost of Carbon Dioxide* (in 2019 dollars per metric ton)
2010	\$60	\$61
2015	\$67	\$68
2020	\$74	\$75
2025	\$81	\$83
2030	\$87	\$89
2035	\$93	\$95
2040	\$100	\$102
2045	\$106	\$108
2050	\$113	\$115

DISCUSSION

- 5 We agree with Staff’s recommendations. Pursuant to RCW 80.28.395 and RCW 80.28.405, the Commission is mandated to adjust the cost of greenhouse gas emissions resulting from the use of natural gas and from the generation of electricity to reflect the effect of inflation. Greenhouse gas emissions affect costs throughout the economy, and the broad measure of the BEA’s GDP price index therefore appropriately reflects inflation of the cost of greenhouse gas emissions.
- 6 We additionally confirm that, going forward, an annual adjustment period represents a reasonable period of review. Annually adjusting the cost of greenhouse gas emissions will assist regulated energy utilities with the increased planning required by 2019 energy legislation.

FINDINGS AND CONCLUSIONS

- 7 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, and accounts of public service companies, and to exercise all the powers and perform all the duties prescribed by Title 80 RCW.

³ Commission’s webpage on adjusted values from 2007 dollars to 2018 dollars
<https://www.utc.wa.gov/regulatedIndustries/utilities/Pages/SocialCostofCarbon.aspx>.

- 8 (2) The Commission is mandated, pursuant to RCW 80.28.395 and RCW 80.28.405, to adjust the cost of greenhouse gas emissions resulting from the use of natural gas and from the generation of electricity to reflect the effect of inflation.
- 9 (3) This matter was brought before the Commission at its regularly scheduled meeting on July 30, 2020. The Commission received no written or oral comments from any person or party.
- 10 (4) The use of the GDP price index from the BEA published in May 2020, as an inflation factor reasonably reflects the effect of inflation on the cost of greenhouse gas emissions.
- 11 (5) Annual adjustment of the cost of greenhouse gas emissions to reflect the effect of inflation is a reasonable period that is consistent with RCW 80.28.395 and RCW 80.28.405.

ORDER

THE COMMISSION ORDERS:

- 12 (1) The cost of greenhouse gas emissions shall be adjusted from 2007 dollars to 2019 dollars per metric ton to reflect inflation using the GDP price index published by the Bureau of Economic Analysis of the United States Department of Commerce.
- 13 (2) The adjusted cost of greenhouse gas emissions shall be posted to the Commission's website.
- 14 The Commissioners, having determined this Order to be consistent with the public interest, directed the Secretary to enter this Order.

DATED at Lacey, Washington, and effective July 30, 2020.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARK L. JOHNSON
Executive Director and Secretary