

September 7, 2023

VIA ELECTRONIC FILING

Kathy Hunter, Acting Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop S.E.
Lacey, Washington 98503

Re: U-230161—NW Natural Response to Notice of Opportunity to File Written Comments

Dear Ms. Hunter:

Northwest Natural Gas Company, dba NW Natural (NW Natural), appreciates the opportunity to respond to the Washington Utilities and Transportation Commission's (Commission) August 30, 2023, Notice of Opportunity to File Written Comments (Notice) in advance of the September 15 workshop in Docket U-230161.

NW Natural remains very supportive of the Commission addressing the potential impacts of the Climate Commitment Act (CCA) in this docket. Commission guidance on cost recovery, utility planning, and how to allocate consigned allowance revenue (among other things) is crucial for the success of the CCA cap-and-invest program.

Questions Posed in the Notice:

1. *What are the necessary elements for an equitable, fair, and reasonable risk-sharing mechanism, as required by Order 01 in Docket UG-230470?*

NW Natural notes that it is not a party to Docket UG-230470 because that docket solely pertains to Puget Sound Energy's request to recover certain CCA costs. As such, NW Natural is not involved in any ongoing discussions that parties in that docket may be having on a risk-sharing mechanism as called for in the order cited above.

Nonetheless, NW Natural continues to believe that Washington utilities should be permitted to recover their prudently incurred CCA compliance costs. As a mandatory regulatory requirement, utilities must comply with the CCA and, accordingly, should be able to recover prudently incurred compliance costs in rates.

However, much like other utility costs, CCA cost recovery is not guaranteed. Rather, utilities must bear the burden of showing that their compliance actions are prudent. If a

utility cannot demonstrate prudence, it risks a disallowance of some or all CCA compliance costs. This paradigm appears to address the concerns expressed in Order 01 in Docket UG-230470. Paragraph 22 of that order states that any risk sharing mechanism must “appropriately balance[] the compliance risk between the Company [Puget] and its natural gas customers.” In this case, if a utility did not comply with the CCA, it may have a difficult time demonstrating that its actions were prudent, and, therefore, may face a disallowance. Consequently, that utility would bear a considerable amount of the “compliance risk” expressed in Order 01.

CCA compliance costs are similar to natural gas purchases. Specifically, both the price of natural gas and the price of CCA allowances are set by market forces that are outside the control of NW Natural. In addition, both are necessary to reliably serve Washington customers consistent with state law. In this way, CCA compliance costs can be thought of as an additional cost associated with the purchase of conventional natural gas. In other words, under the CCA, utilities can no longer just purchase conventional natural gas. Instead, they must also either purchase a CCA allowance for that gas to be consumed or take actions to ensure that the purchase of conventional natural gas is not needed at all (e.g., energy efficiency or acquiring decarbonized fuels). Applying the existing cost recovery model used to recover purchased gas costs to these associated CCA costs would continue to appropriately balance risks between utilities and its customers.

If the Commission wants to move away from this model, then it should clearly define what risks it seeks to mitigate are, and why that model is no longer appropriate. Any mechanism developed without a clear and common understanding of the risks that the Commission seeks to mitigate will likely cause unforeseen issues and complications. Also, any newly developed mechanism should be symmetrical. With a symmetrical risk-sharing mechanism, the utility would not just bear the downside risks of CCA compliance, but also share in any benefits if it mitigated those compliance risks successfully.

2. *At what frequency, and under what conditions, should utilities be required to file CCA forecast updates, as required by Order 02 in Docket UE-220797?*

Order 02 in Docket UE-220797 applies to Puget Sound Energy’s electric load forecasts for the purpose of determining how many CCA allowances it is allocated at no cost. NW Natural does not believe this order applies to natural gas utilities where the amount of allowances that are allocated at no cost are fixed.¹ For natural gas utilities, the existing processes in Integrated Resource Plans (IRPs) and PGAs are sufficient.

3 & 4. *Under what circumstances should utilities create separate tariffs for recovery and pass-back of CCA costs and proceeds? Under what circumstances should utilities incorporate CCA costs and proceeds into general rate cases?*

Since questions 3 and 4 are interrelated, NW Natural will answer them together. NW Natural plans on making a separate tariff filing in the next several weeks seeking to recover CCA costs and to allocate consigned CCA allowance revenue for customer benefit.

¹ WAC 173-446-240.

Making a separate tariff filing at this time is important for two reasons. First, it limits the deferral balance of CCA costs that must eventually be recovered in rates. If NW Natural waits to seek cost recovery, the deferral balance will further increase, exacerbating the eventual rate impact of the CCA. Second, the CCA rate increase is paired with a projected decrease in commodity costs, reducing the overall rate impact to customers.

NW Natural continues to believe that a separate tariff with an annual update is preferable to incorporating CCA costs and proceeds into general rate cases. Similar to purchased gas, CCA costs, especially allowances, may vary considerably year-to-year due to factors outside of the control of the Company. Therefore, a separate tariff with an annual CCA rate mechanism where costs and proceeds are subject to prudence review is appropriate. NW Natural will propose recovering CCA costs on a forward-looking basis and include a true-up deferral to capture any over- or under-recovery of costs. As part of its tariff filing, NW Natural will also allocate consigned allowance auction proceeds to mitigate the impact of the CCA.

Given the short-term volatility in the cost of purchasing allowances, as well as the proceeds that the utility receives from consigning allowances to auction for customer benefit, NW Natural does not believe that these costs/proceeds should be incorporated into general rate cases. If these costs and proceeds were part of general rate cases, it may result in a utility either over-recovering or under-recovering a substantial amount of CCA costs simply because the forecasted costs were incorrect due to compliance costs being above or below the forecast. It may also result in customers either receiving less than the actual consigned auction proceeds or, conversely, more proceeds than the utility received from consigning allowances to auction. The Company firmly believes that costs/proceeds of this nature need to be updated annually to reduce rate volatility, and/or over/under collection, and believe a mechanism similar to the purchase gas adjustment should be utilized.

- 5. In Workshop 2, interested persons indicated that utility Low-Income Advisory Groups were best situated to discuss the requirements concerning low-income customers under the CCA. Should the Commission convene a "Joint Low-Income Advisory Group," which could convene, discuss outstanding issues relating to low-income customers under the CCA, and submit a proposal to the Commissioners? The outstanding issues include those identified in the agenda for Workshop 2 and discussed in comments in this docket.*

NW Natural is concerned that a Joint Low-Income Advisory Group would be duplicative. This docket should give all entities, including members of Low-Income Advisory Groups, the opportunity to participate and make recommendations on these outstanding issues. Creating a separate process, or group, may lead to delay where Commission guidance is critically needed as soon as practicable. For instance, the definition of "low-income customers" is a crucial question that must be addressed in order to ensure those customers are not subject to CCA costs. In its May 10 comments, NW Natural recommended that the Commission define low-income customers as those customers known to have "household incomes that do not exceed the higher of eighty percent of area median income or two hundred percent of federal poverty level, adjusted for household size," consistent with the

Clean Energy Transformation Act regulations (WAC 194-40-030). NW Natural believes that these and other issues affecting low-income customers can be addressed in this docket in relatively short order with the understanding that utilities are permitted to work with their Low-Income Advisory Groups if more specific guidance is needed based on the unique attributes of a utility's service territory. Such specific guidance could be provided by the Commission in response to filings made by an individual utility or another party.

6. *What guidelines should the Commission issue to ensure long-term utility plans are consistent with CCA rules? For example:*

What should the ramifications be if a utility's long-term plans:

- 1) Exceed the emissions ceiling set by RCW 70A.45.020,*
- 2) Require purchasing excessive price ceiling units pursuant to RCW 70A.65.160, or*
- 3) Model allowance purchases that are greater than a utility's proportional share of statewide allowances?*

In the case of the scenarios above, how should utilities demonstrate that decarbonization, or other methods for CCA compliance, are NOT the least reasonable cost pathway?

Existing planning guidelines already require utilities to plan to meet all applicable regulatory requirements, including the CCA. These existing guidelines should be sufficient for a utility to plan for CCA compliance. NW Natural notes that items 1-3 above do not necessarily result in a utility failing to comply with the CCA. For instance, RCW 70A.45.020 includes a statewide emissions ceiling across all sectors of the economy and, therefore, determining how to apply that standard on a utility-by-utility basis is problematic, especially if the utility already demonstrates that it has a reasonable plan for CCA compliance.

Items 2-3 above pertain to actions taken to comply with the CCA. Such actions cannot be viewed in isolation. Rather it is appropriate to consider the alternative actions available to cover a utility's CCA compliance obligation and their costs/risks relative to purchasing excessive price ceiling units. This may include a strategy that purchases allowances greater than a utility's proportional share of statewide allowances if other compliance alternatives are higher cost or higher risk. The costs and risks of a CCA compliance strategy that uses either approach can be evaluated relative to those other alternatives, such as acquiring decarbonized fuels, similar to other planning decisions that a utility must make.

That said, the Commission could consider taking a more active role in acknowledging utilities' IRPs. The Commission currently determines whether NW Natural's IRP, as a whole, meets the requirements of WAC 480-90-238. The Commission, however, could decide whether to acknowledge the IRP in order to provide guidance for later ratemaking proceedings. Consistency with an acknowledged plan would be used as evidence in support of favorable ratemaking treatment, although the utility still must demonstrate that its actions remained prudent and reasonable, particularly in light of any material changes in the facts, circumstances, and assumptions that supported IRP acknowledgment. Making

this change would provide more certainty to utilities and interested parties ahead of implementing the CCA compliance plan.

In addition to acknowledging general compliance pathways through the IRP, the Commission should provide clarity on the application of the Social Cost of Carbon (SCC). HB 1257 sections 11 and 15 directs natural gas utilities to use the SCC and specifies how it should be calculated. Following Washington's IRP Guidelines for evaluating all resources consistently, NW Natural's 2022 IRP applied the SCC in evaluating all alternative compliance resources (inclusive of energy efficiency) for the CCA relative to purchasing allowances.² NW Natural requests that the Commission find that this approach is appropriate in selecting CCA compliance resources.³

7. *Are there any other priority issues that have arisen since comments were last filed?*

NW Natural's priority issues remain mostly unchanged from its May 10 comments. We still believe that the three most important issues for the Commission to address are: 1) confidentiality, 2) cost recovery, and 3) how to allocate consigned allowance auction revenue.

Regarding confidentiality, NW Natural remains concerned with how it provides its bid strategy, bid price, and similar information in Commission proceedings that evaluate the prudence of the Company's actions. WAC 173-446-317 may be read to prevent the sharing of such information with anyone, even under a protective order. NW Natural respectfully requests that the Commission work with the Department of Ecology to clarify these obligations and ensure that the Commission has an appropriate level of access to necessary information.

As shown in its comments above, NW Natural continues to recommend that costs be recovered on an annual basis and there should be flexibility with how consigned revenue is utilized. Depending on decarbonization opportunities available, it may make sense to use at least a portion of these funds on direct decarbonization activities as opposed to bill credits.

NW Natural appreciates the opportunity to provide these comments, and the Company looks forward to participating in the upcoming workshops and further comment requests.

Please address questions and correspondence on this matter to the following:

² WAC 480-90-238 guideline 2(f) - A comparative evaluation of the cost of natural gas purchasing strategies, storage options, delivery resources, and improvements in conservation using a consistent method to calculate cost-effectiveness.

³ NW Natural 2022 IRP, Chapter 6, section 6.5.6 : To align with Washington HB 1257 language to use the SCC for planning, we use the maximum of the SCC and our allowance price forecast to price the tradable allowances in PLEXOS® [NW Natural's Resource Planning Optimization Model].

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Sincerely,

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