



**CITY OF ELLENSBURG**  
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July 15, 2022

Mr. Josh Grice  
Washington Department of Ecology  
Air Quality Program  
P.O. Box 47600  
Olympia, WA 98504

RE: WAC 173-446 Proposed Rule / Climate Commitment Act

Mr. Grice:

The City of Ellensburg offers the following comments, questions, and observations regarding the proposed Climate Commitment Act (CCA) rules – WAC 1173-446.

The City of Ellensburg operates a non-profit municipal natural gas distribution system, serving more than 4,000 residential customers and over 700 commercial customers. Roughly half of the City's residential customers are considered to be low-income.

The City of Ellensburg's non-profit natural gas utility operates at the cost of service to cover operating and capital expenditures. Operating as a non-profit utility helps keep rates low and has a positive impact economically and on the most marginalized in our community. The City of Ellensburg is massively disadvantaged in compliance options as we don't have additional funds, don't have economies of scale, and can't pool from other subsidiaries. As a result, the CCA could quite possibly result in a much larger negative impact on Ellensburg citizens than any other area of the state. The City of Ellensburg will have to drastically raise rates in order to comply.

Provide Alternative Compliance and Allowance Allocation: The City of Ellensburg is requesting that Ecology consider an alternative compliance or allowance allocation for non-profit municipal gas systems.

Based on the legislative record and the proposed rule, the costs and implications for municipal gas systems were not considered as legislators designed a program for emission reductions from large privately-owned gas distribution companies only.

As a small municipal gas distribution system, the City of Ellensburg must raise rates in order to comply with the annual reduction in allowances and the mandatory assignment to auction as prescribed in this program. Ecology's Preliminary Economic Analyses estimates a cost of nearly **\$59 per allowance – a 160% increase of the estimated allowance price provided to legislators in the Ecology fiscal note.** The year one (2023) estimated cost of compliance equates to a 24% rate increase for a low-income residential customer. Given the potential impact to the City of Ellensburg customers, did Ecology consider the costs to non-profit municipal gas distribution systems? Did Ecology consider the costs to the more than 700 small businesses in the City of Ellensburg?

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The current program contemplates the economic hardship for other sectors of the economy – such as energy intensive and trade exposed industries, landfills, agricultural, aviation, and more. In consideration of the resulting economic hardship for the City of Ellensburg natural gas distribution system, Ecology should provide a less burdensome compliance pathway out of fairness to small non-profit municipal utilities.

We ask that Ecology use the discretion provided by the Legislature to allow more time for systems like non-profit municipal natural gas distributors to find reasonable pathways to decarbonization that will not result in unsustainable rate increases.

Additionally, our customers have limited options not fully contemplated by Ecology's regulatory analysis or small business impact findings. Our customers will see cost increases, either through increased rates or electrification of their homes and businesses. Both of which will result in an economic hardship for our City of Ellensburg customers.

No Cost Allowances: Our strict reading of RCW 70A.65.130 requires Ecology, in consultation with the Utilities and Transportation Commission, to provide no cost allowances to natural gas utilities to minimize the impacts to customers. While the City of Ellensburg is not under the jurisdictional purview of the Utilities and Transportation Commission, we see no evidence in the record that this work was done, and Ecology did not consult with our governing body for the local gas distribution system.

The statutory language in RCW 70A.65.130(1)(b) emphasizes the total allocation should be done to the benefit of the ratepayers over the first two compliance periods. Adopting an immediate 7% decline in allowance allocation based on an undefined proportionality doesn't seem equitable to the City of Ellensburg ratepayers, nor consistent with our reading of the statute. The no cost language in Proposed WAC 173-446-240(2)(a)(i) sets the total no-cost allowances allocated to natural gas utilities at 93% for emission year 2023, with an additional 7% decline each year through 2030. Subsection (2)(b) then adjusts the no-cost allowances for emissions years 2031 through 2042 by an additional 1.8% per year of allocation baseline. Subsection 2(c) adjusts down an additional 2.6% per year for emissions years 2043 through 2049.

The proposed rule for distribution of allowances to natural gas distribution systems is inconsistent with the legislative intent and statutory reading.

Ecology should revise the proposed allocation of allowances for non-profit municipal natural gas systems to provide 100% no cost allowance through the first two compliance periods. Ecology should further schedule time to meet with the governing authority of the municipal natural gas system and share with us the findings of the consultation between Ecology and the Utilities and Transportation Commission.

Alternatively, Ecology should revise WAC 173-446-240(2) so that no-cost allowances provided to gas utilities are reduced less in the first compliance period (2023-2036) and more in later compliance periods. Starting the program with more no-cost allowances for gas utilities would—consistent with the CCA—minimize program impacts on gas customers and provide gas utilities time needed to transition to cost-effective low-carbon options. The City of Ellensburg leadership is concerned that if gas rates increase rapidly, customers could switch to other more carbon-intensive heating products—which is inconsistent with the goals of the CCA and could have a negative environmental impact. The City of Ellensburg supports achieving emissions reductions, but remains concerned that the steep decline in the no-cost allowance allocations for gas utilities in the first compliance period does not account for (1) gas utilities' duties to serve its customers; and (2) the time it takes to realistically explore energy

efficiency and add renewable energy supply to the City of Ellensburg gas portfolio. It will take time to switch appliances from gas to electric in individual homes and businesses. Ellensburg's natural gas utility has a consistent record of increasing efficiency, but not the tools to meet the aggressive goals of CCA.

Ecology's proposed rules in 173-446 also fail to provide adequate clarification for treatment of no cost allowances when weather requires greater natural gas use for heating. How will Ecology true up the forecasted allowances in a timely manner to meet weather variability? The rules thus far seem to shift unnecessary burden to our customers. The rules do not allow flexibility to meet the requirement to serve in times of extreme weather. The rules should specifically clarify the process for modifying forecasts in real-time to allow for this foreseen variability.

At a minimum, Ecology should also clarify in the definition of "biomass-derived fuel" at WAC 173-446-020(1)(o) that fuels such as renewable natural gas (RNG) purchased to comply with the CCA program are not required to be tracked to the specific end-user of where the RNG is delivered. This clarification is consistent with Washington's long-standing renewable portfolio standard for electricity. RNG, like renewable electricity, is purchased on behalf of customers, but it is impracticable to track the actual gas molecules or electrons to a specific location upon delivery. This 'book and claim' concept is well accepted in environmental markets and spurs growth in renewable energy sources. If the City of Ellensburg can secure RNG as a decarbonization effort, we need assurance it will be accurately counted.

According to the 2019 American Community Survey (ACS), 47% of the City of Ellensburg customers are estimated to be at or below 200% federal poverty level. The allocation of allowances to a natural gas utility should directly ensure no cost to the low-income customers per RCW 70A.65.130(1)(b). The Ecology proposed allocation of allowances ensures that low-income community members will have direct costs associated with the program, regardless of the consignment decisions of the City of Ellensburg.


We strongly encourage Ecology to provide cost relief to the most vulnerable populations in our community.

As a small municipal gas distribution system, providing heating to low-income, senior citizens, and small businesses, we appeal to Ecology to better understand the implications of the CCA program, and provide necessary clarifications to your rules to ensure sufficient allowances for no cost to our customers. Please don't hesitate to reach out to us if you have any questions regarding our comments.

  
Nancy Lillquist  
Mayor

  
Heidi Behrends Cerniwey  
City Manager

  
Derek Mayo  
Acting Public Works & Utilities Director

  
Buddy Stanavich  
Power and Gas Manager