PUGET SOUND ENERGY

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Filed Via E-Mail

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Climate Pollution Reduction Program
PO Box 47600
Olympia, WA 98504-7600

Re: Administrative Cost Allowances under the Cap-and-Invest Program; Comments of Puget Sound Energy – November 2024

Dear Camille Sultana:

Puget Sound Energy (PSE) appreciates the opportunity to provide feedback on the Department of Ecology's (Ecology) implementation of administrative costs through the provision of no-cost allowances to electric utilities under the Cap-and-Invest Program. PSE offers general comments and responses to specific questions posed by Ecology in the October 16, 2024, public meeting on Cap-and-Invest no-cost allowance allocation for electric utilities. By way of background, PSE is an investor-owned utility providing electric service to more than 1.2 million customers and serving nearly 900,000 natural gas customers in the greater Puget Sound region.

<u>Relevant laws and rules:</u>

Pursuant to RCW 70A.65.120(1), CCA allows all electric utilities subject to the requirements of the Washington Clean Energy Transformation Act (CETA) to be eligible for allowance allocation at no cost to mitigate the cost burden of the Cap-and-Invest Program on electricity customers. Further, RCW 70A.65.010(21) defines "cost burden" as "the impact on rates or charges to customers of electric utilities in Washington State for the incremental cost of electricity service to serve load due to the compliance cost for greenhouse gas emissions caused by the program," and further notes that "cost burden" includes "administrative costs from the utility's participation in the program."

Pursuant to Climate Commitment Act program rule WAC 173-446-230(2)(h) on distribution of allowances to electric utilities:

> "An additional number of allowances will be allocated to account for the administrative costs of the program. Administrative costs of the program are limited solely to those costs associated with establishing and maintaining compliance accounts, tracking compliance, managing compliance instruments, and meeting the reporting and verification requirements of this chapter. Program costs, such as those related to energy efficiency or renewable energy programs, are not qualifying administrative costs, including any administrative requirements of those programs. The number of allowances allocated for this purpose will be determined by ecology based on documented and verified administrative costs derived from audited financial statements from utilities. The mean allowance auction price from the time period for which administrative costs are documented will be used to translate administrative costs into the appropriate number of allowances. To ensure consistency, ecology will consult with the utilities and transportation commission in its calculations for the administrative costs for investor-owned utilities."

General Comments:

- Consistent with the comments of peer utilities, including the Public Generating Pool and PacifiCorp, PSE strongly recommends that Ecology consider allocating a standard[1] number of allowances to each electric utility for past program years (2023-2025), given that guidance or dialogue on the topic has not yet occurred to date. This would help promote a consistent and predictable treatment for all electric utilities.
  - PSE proposes to include 2025, given that time is needed for further dialogue to develop guidance by Ecology, for electric utilities to implement necessary financial documentation structures after the guidance is published and to submit first reports, and for Ecology to review submitted information and to issue the first no-cost allowances for administrative costs.
- PSE requests additional dialogue or understanding from Ecology about whether any administrative costs associated with greenhouse gas (GHG) tracking, reporting, and third party verification under Chapter 173-441 WAC (Reporting of emissions of greenhouse gases) may be eligible for no-cost allowances.
  - Currently, Ecology's proposed amendment to WAC 172-446-230(2)(h) per ongoing Climate Commitment Act Linkage Rulemaking is as follows: "….Administrative costs of the program are limited solely to those costs associated with establishing and maintaining compliance accounts, tracking compliance, managing compliance instruments, and meeting the reporting and verification requirements of this chapter *and Chapter 173-441 WAC*."[2] Ecology's final Linkage Rulemaking rules are slated for adoption in the fall of 2025.

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[1] Based on the size of the utility's carbon obligation, or the number of facilities listed in the Compliance Instrument Tracking System Service (CITSS), or other standardized determination.

[2] *Washington State Department of Ecology*, "Draft Proposed Changes to the Climate Commitment Act Program Rule for the Linkage Rulemaking." July 1, 2024, emphasis added. <https://ecology.wa.gov/getattachment/6a6de342-87c6-4871-b5e5-efcaed447179/DRAFTforComment-WAC173-446CCA-LinkageRulemaking-2024July1.pdf>

- PSE recommends that Ecology issue a guidance document so that electric utilities can uniformly implement a process on a going forward basis.

The following are PSE's responses to specific questions posed in the Notice.

1. ***Can administrative costs of the program be demonstrated from audited financial statements from utilities?***

No. While PSE regularly undergoes financial audits, PSE's audited financial statements do not include a breakdown of costs associated with state compliance, and particularly the specific costs addressed in these comments, separately from other operating costs. Further, requiring additional audited financial statements to verify administrative costs would be costly and burdensome and would likely outweigh the monetary benefit of seeking no-cost allowances to address these administrative costs for the benefit of electric customers and their burden under the program. As an alternative, utilities can have costs tracked within their general or subsidiary ledgers on which audited financial statements are based.

2. ***What documentation do utilities have, consistent with program rule, that indicate administrative program costs?***

For program years 2023-2025, PSE can provide documentation in the form of vendor invoices and estimates of staff time spent on applicable tasks. On a going forward basis and once clear guidance has been received from Ecology, PSE can use a work order tracking system that tracks staff time on a weekly basis and vendor invoices on a monthly basis. Documentation based on this tracking could be submitted to Ecology as part of a regular process for validating administrative costs going forward.

3. ***How should utilities submit requests for recovery of administrative costs? What supporting documentation should be submitted?***

PSE urges Ecology to adopt a streamlined and efficient approach to capturing administrative costs. PSE agrees with the suggestion of other utilities to develop a standard form to be filled out in which supporting documentation capturing staff time, vendor invoices, and any other additional cost factors can be provided.

4. ***How can Ecology promote consistent and predictable treatment across utilities in implementing WAC 173-446-230(2)(h)?***

PSE recommends that Ecology work quickly to address this issue so that a consistent approach can be implemented for the remaining year (2026) of the first compliance period and going forward. Ecology should prioritize issuing a guidance document. Such a guidance document should clearly identify eligible expenses and lay out a process for seeking recovery of such eligible expenses, including cost types, timing, due dates, and vintage of no-cost allowances. A communication or feedback process should be determined for working out any potential implementation issues or questions as electric utilities begin to use the guidance document. Further, Ecology should consider the timing of the process for no-cost allowance allocation for administrative costs and whether there will be the need for estimates and true-ups if utilities are required to prospectively identify administrative costs.

Thank you for the opportunity to provide comments to inform implementation of Cap-and-Invest Program electric administrative costs. PSE would welcome further dialogue with Ecology and fellow electric utilities on this matter.

Please contact Kelima Yakupova, State and Regional Policy Consultant in Regulatory Policy, at Kelima.Yakupova@pse.com and Kassie Markos, Manager of Public Policy and Public Funding, at Kassie.Markos@pse.com, for additional information about these comments. If you have any other questions, please contact me at (425) 462-3051.

Sincerely,

/s/ Wendy Gerlitz

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