

# State's new law involving Puget Sound Energy aspires to set a course for the future

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Over the past couple of years, Washington lawmakers have wrestled with a daunting task.

The problem: The state's largest utility, Puget Sound Energy, sells [natural gas](#) to nearly 1 million customers and burns gas and coal to electrify cities. That contributes millions of metric tons of planet-warming gases to the atmosphere.

It makes PSE one of the largest producers of greenhouse gas pollution in the state, ranked among fuel suppliers like Marathon, BP and Philips 66. And it represents a huge threat to the state's ambitious climate goals.

Lawmakers' original proposed fix would have been unprecedented in the country and required PSE to stop offering new commercial and residential natural gas hookups. But the version of the legislation signed into law by Gov. Jay Inslee didn't go nearly that far and illustrates the intense debate over turning off the flow of natural gas.

Dozens of states have gone the other direction, passing legislation prohibiting local gas bans or electrification mandates, and municipalities that have attempted to restrict new gas hookups have faced litigation.

Last month, Berkeley's ban on new gas connections was halted after the California Restaurant Association successfully opposed it in court. The Washington State Building Code Council has passed energy efficiency mandates intended to make it nearly impossible to install fossil-fueled appliances in new buildings—but not without legal challenges.

The state's new law involving PSE, passed with narrow voting margins and industry scrutiny, aspires to set a course for a future, decades away, in which natural gas is a thing of the past.

Washington Sen. Joe Nguyen, who sponsored the final version of the bill, said the law is "a plan for a plan" and allows PSE to start thinking about how to decarbonize when proposing rates to its regulator, the Washington Utilities And Transportation Commission.

It allows PSE to potentially raise rates earlier to pay for clean-energy projects, spreading the cost out over a longer period, among other adjustments.

Supporters say the law represents one of the first efforts nationwide of a utility agreeing to decarbonize and comply with emissions goals in exchange for regulatory changes.

"Nobody has ever done this before," Nguyen said. "There's been no company in the United States that has gone from basically a 100% natural gas company to one that is more decarbonized with [renewable energy](#), so [PSE is] trying to do something that is nation-leading."

Nguyen and supporters say the law is a good first step, even if more legislation will be needed. However, the law also reflects concerns that an energy transition would disproportionately impact low-income ratepayers.

## What does the new law do?

Seeing a tough road ahead to decarbonize, PSE requested help from lawmakers. A central issue has been about how to keep utility rates stable as the investor-owned utility expects to acquire a massive amount of renewable energy while methane gas use declines.

According to PSE, gas use dropped 7% for residential customers and 3% for commercial customers between 2022 and 2023 for several reasons, including air conditioning demand, [energy efficiency](#) programs and changing preferences. PSE has around 1.5 million customers in all, who buy either electricity, methane or both from the utility.

These changes come as PSE must comply with Washington's two landmark climate laws—the Clean Energy Transformation Act, which

will require the utility to become greenhouse gas neutral in its electricity generation by 2030, and the Climate Commitment Act, which gradually ratchets down emissions 95% by 2050.

The utility will need to buy or build 6,700 megawatts of renewable electricity by 2030, more electricity than it ever has acquired in its 150-year history, PSE spokesperson Matt Steuerwalt said.

"In the past six years, energy law in Washington state has changed more than in the previous 100," PSE lobbyist Matt Miller said during a senate committee's public testimony in January. "This bill helps us comply with that. We have a steep hill to climb, but ... this bill provides us tools to do that."

Historically, gas and electricity customers have been kept in silos and rebates have incentivized them to stay on their energy source if equipment breaks, said Kelly Hall, the director of Climate Solutions in Washington, an [advocacy group](#) in support of the law.

But the new law removes rebates for residential customers who purchase gas appliances or equipment beginning in 2025.

The law also allows the utility and state regulators to consolidate their regulatory planning processes into one plan. Currently, PSE submits six separate plans to the commission, including on gas and electric resources, pipeline safety and compliance with clean electricity law, Steuerwalt said.

The law also allows PSE to potentially merge its gas and electric rate bases, though that change would likely be more than several years away, he said.

Under last year's version of the legislation, PSE pushed to own 60% of

new solar and wind projects, citing the "the need to acquire a significant amount of resources in a limited amount of time." That led to anti-competitive concerns from trade associations representing independent power producers and renewable energy advocacy groups, halting the bill.

As a compromise this year, the law adds a new process that has been used in other states that would give PSE more assurance it can pay for large capital projects that take a long time to plan and build, like transmission lines, storage and wind and solar projects.

Traditionally, utilities go ahead with new capital projects and after they are built, ask the utility commission if they can be paid back with rate increases, said Lauren McCloy, the policy director of the Northwest Energy Coalition. This new process would allow PSE to bring in the commission and public earlier to review its projects and request a "certificate of necessity," which would give the utility assurance it could raise rates to pay for them later.

Rates associated with the project under this process would not go into effect for customers immediately, only after further review of whether the company handled the project and its costs responsibly, McCloy said.

## **Affordability concerns**

Lawmakers who voted against the legislation raised concerns the state will force people off natural gas at their own expense and raise rates on people who are least able to afford it. During public testimony in January, lobbyists with industry groups representing hotels and grocery stores and a restaurant owner testified that using methane is essential to their operations and keeping costs affordable for consumers.

"The utilities have a guaranteed ability to make a profit, and the consumers don't have a choice in the marketplace ... We're talking tens

of thousands of dollars for individuals in their homes to convert their systems," said Brent Ludeman, a lobbyist with the Building Industry Association of Washington, which opposed the bill.

Others said the current electricity grid is not ready for a full transition and using fossil fuels—especially methane, which burns cleaner than coal—as a backup is a smart choice.

"Natural gas is abundant and relatively cheap so if you remove that, you've got to replace that power source which will be electric and those electric generating facilities are more costly than the natural gas system," Sen. Drew MacEwen, R-Shelton, said.

Some energy economists have argued electrification does not make homes more vulnerable to blackouts and gas infrastructure is just as vulnerable to extreme weather events—like during the winter storm that paralyzed Texas's grid in 2021.

McCloy said people opposed to the bill are conflating rising energy prices with the state's climate goals, and the legislation simply allows the utility to start planning its transition to renewables—as required by law—to minimize price shocks.

Supporters of the legislation have also emphasized natural gas would never have been turned off overnight for customers and electrifying a neighborhood would involve extensive community outreach paired with rebates and regulatory oversight.

While there are no rate increases explicitly tied to the new law, PSE has said it is working quickly to meet the state's requirement to be greenhouse gas neutral by 2030.

"I don't think we know how much it's going to cost to comply with

CETA and CCA. CETA has us building a lot of new renewables in a short time. That's not going to be free," Steuerwalt said of Washington's climate laws.

PSE is currently proposing rate increases of about 17% and 20% over two years for residential electric and gas customers, respectively. Proposed rates are typically higher than what the commission and the utility ultimately agree upon.

Some environmental and advocacy groups have also criticized the law for being too generous to PSE. Sierra Club organizer Dylan Plummer said he is concerned the bill will lead to "significant" rate increases without requiring the utility to retire gas infrastructure—but ultimately believes the law to be a "net benefit."

"To be clear, there is a cost to decarbonizing," said Nguyen. "There is a cost to transitioning. There is a big cost of not doing anything either. It cost the state billions of dollars in climate mitigation by dealing with wildfires and health concerns. It costs us money with the current infrastructure."

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