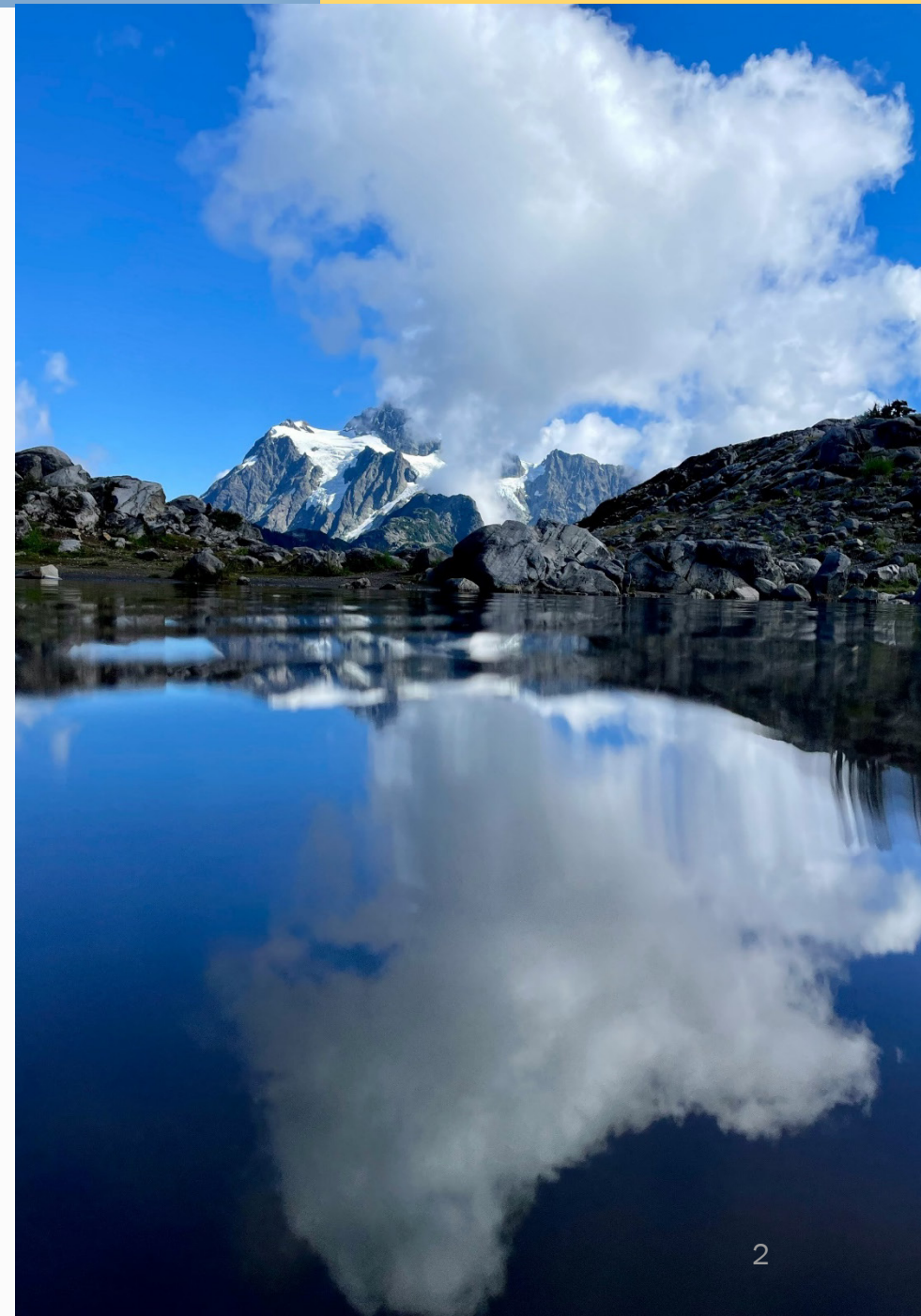


Cap-and-Invest: No-cost allowance allocation for electric utilities

November 14, 2025

Meeting materials

- Meeting is being recorded
- Meeting materials on [Cap-and-Invest Program updates and linkage rulemaking page](#)
 - Slides are available
 - Recording will be posted
- [Submit written comment](#) by December 5.



Market sensitive information

- Cap-and-Invest creates a multimillion-dollar market
- Ecology required to guard against bidder collusion and minimize the potential for market manipulation ([RCW 70A.65.100](#))
- Registered entities must avoid disclosing or discussing certain auction information, like bidding strategies ([WAC 173-446-317](#))
- Market sensitive information can affect prices of allowances. Examples include: confidential business information, “insider information” and “market position”
- Ecology will exercise due diligence to ensure all potentially market influencing information is managed appropriately

Ecology staff introductions

- Surabhi Subedi – Facilitator, Cap-and-Invest Program Updates and Linkage Rulemaking Lead
- Meg Baker- Technical Host, Community Outreach and Engagement Specialist
- Andy Hayes – Cap-and-Invest Policy Section Manager
- Camille Sultana – Cap-and-Invest Environmental Planner
- Michaela Wagar - Cap-and-Invest Offsets Senior Specialist

Agenda

- Overview
 - Cap-and-Invest
 - Covered emissions and allocation
 - Electric sector emissions and Washington context
 - Electric utility allocation
- Potential rule updates
 - Allocation design
 - Administrative allocation
 - Use-of no cost allowances
- Allocation forecast details: v2027-2030
- Questions and feedback time after each rule topic and at end of workshop

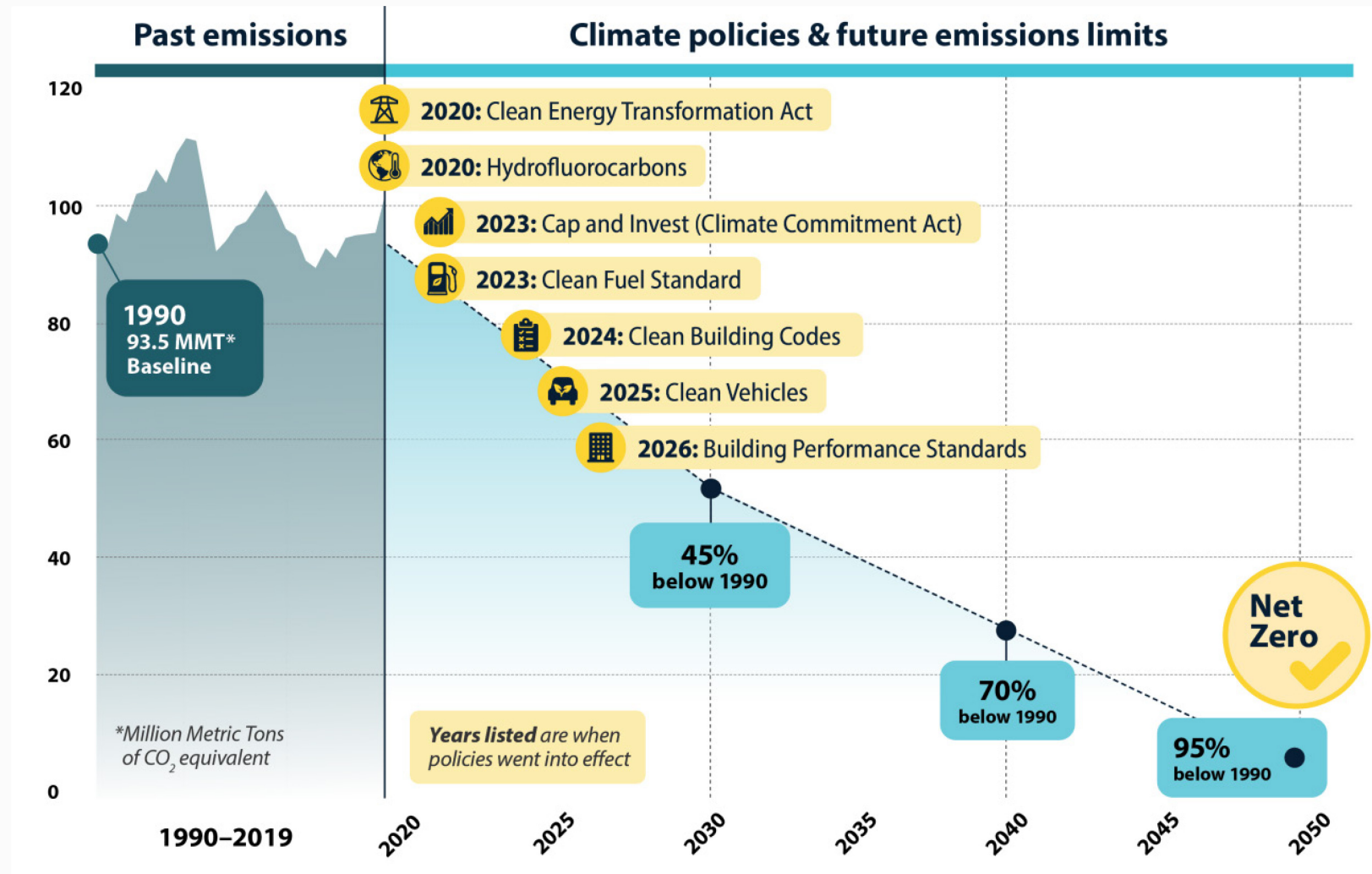


Cap-and-Invest overview

WA statutory greenhouse gas emissions limits

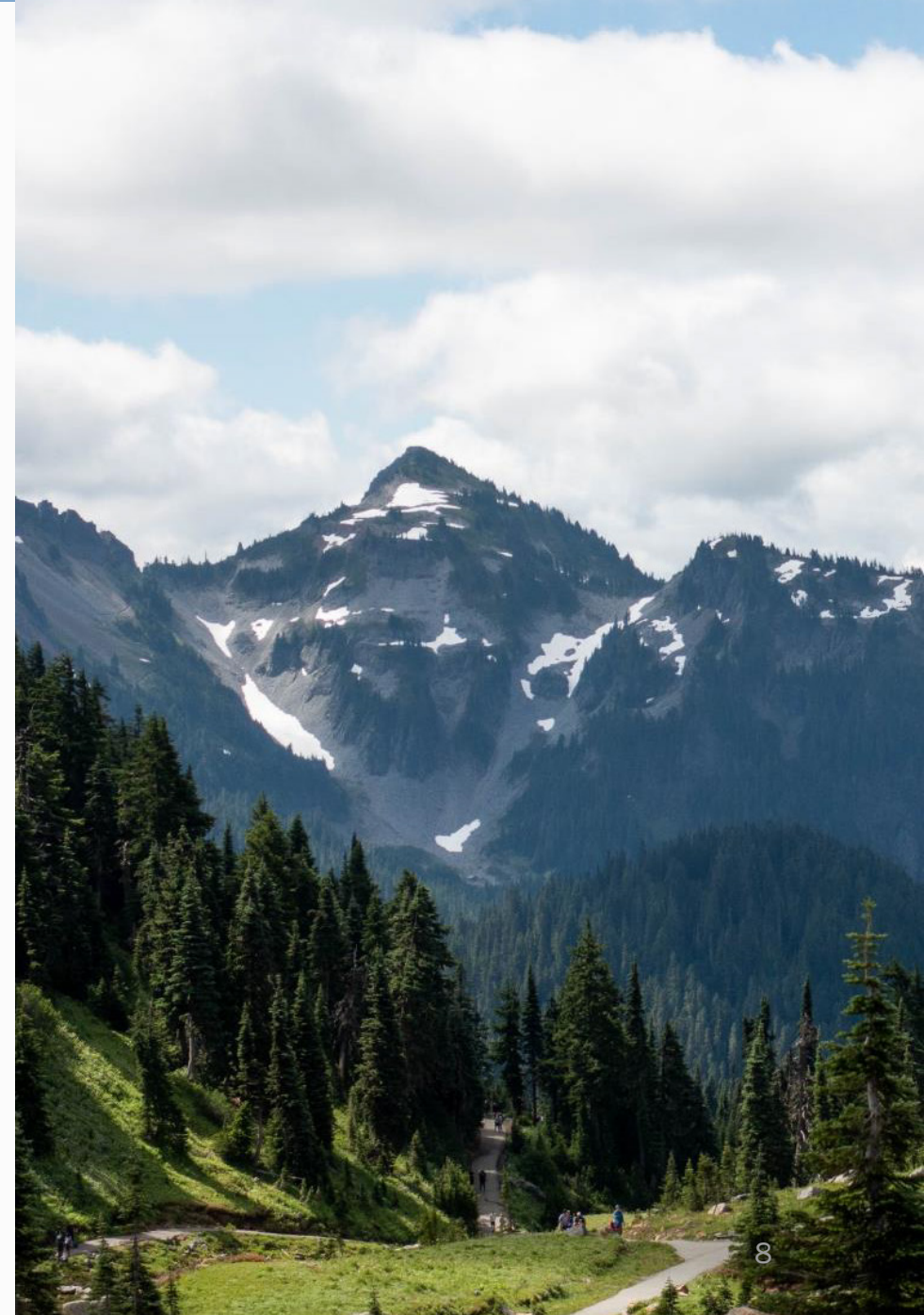
RCW 70A.45.050

- 2030: 45% below 1990
- 2040: 70% below 1990
- 2050: 95% below 1990 and net-zero emissions



Cap-and-Invest overview

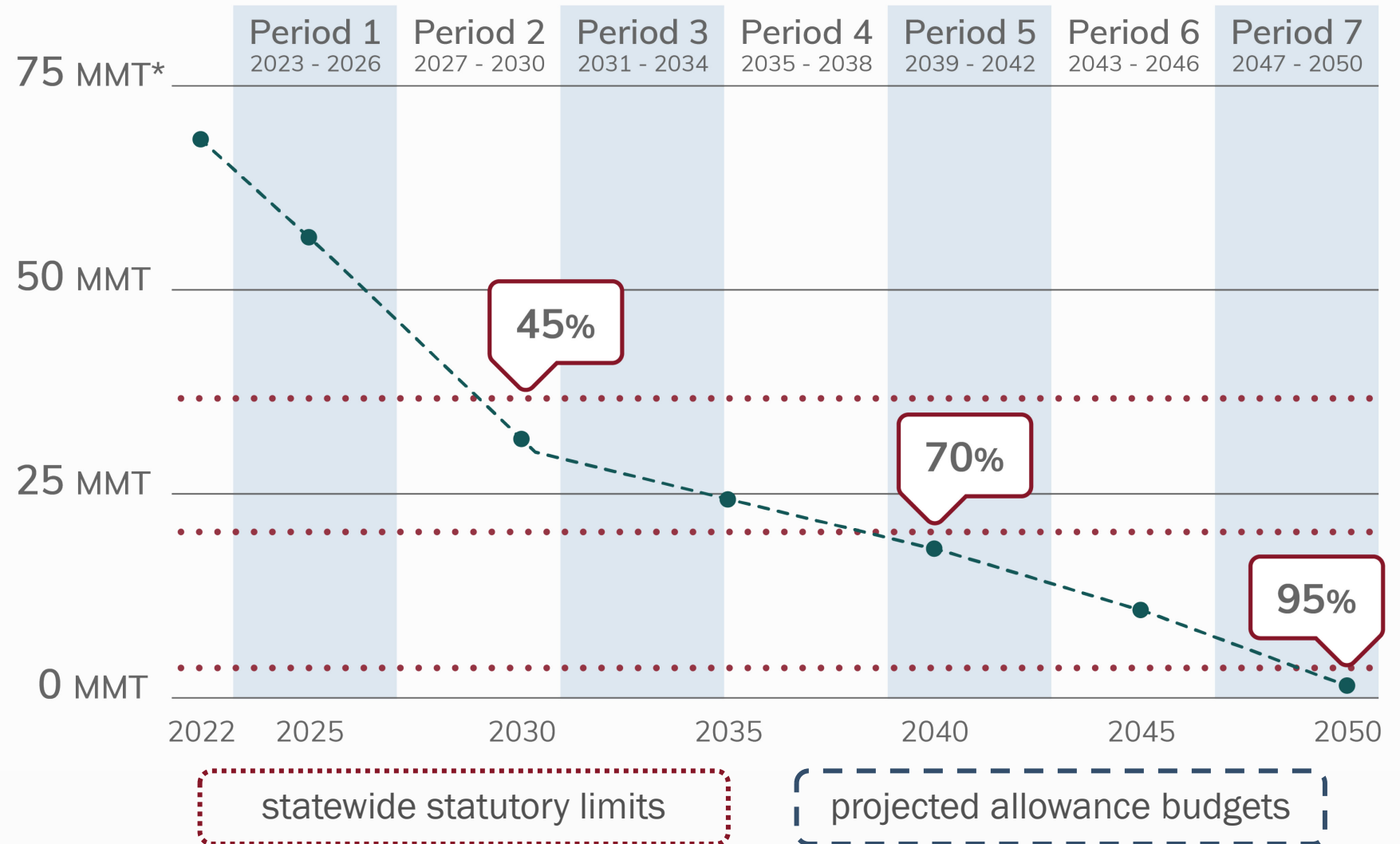
- Authorized by Climate Commitment Act (2021)
- Establishes a declining, economy-wide cap on greenhouse gas (GHG) emissions
 - Aligned with statewide statutory emission limits
 - Covers ~75% of statewide emissions
 - Cap set by annual allowance budget
 - 1 allowance = 1 metric ton carbon dioxide equivalent
- Covered entities must obtain allowances/offsets equal to annually reported covered emissions



Cap-and-Invest is designed to support substantial GHG reductions necessary to meet the State's short- and long-term statutory emission limits (RCW 70A.65.070(2)).

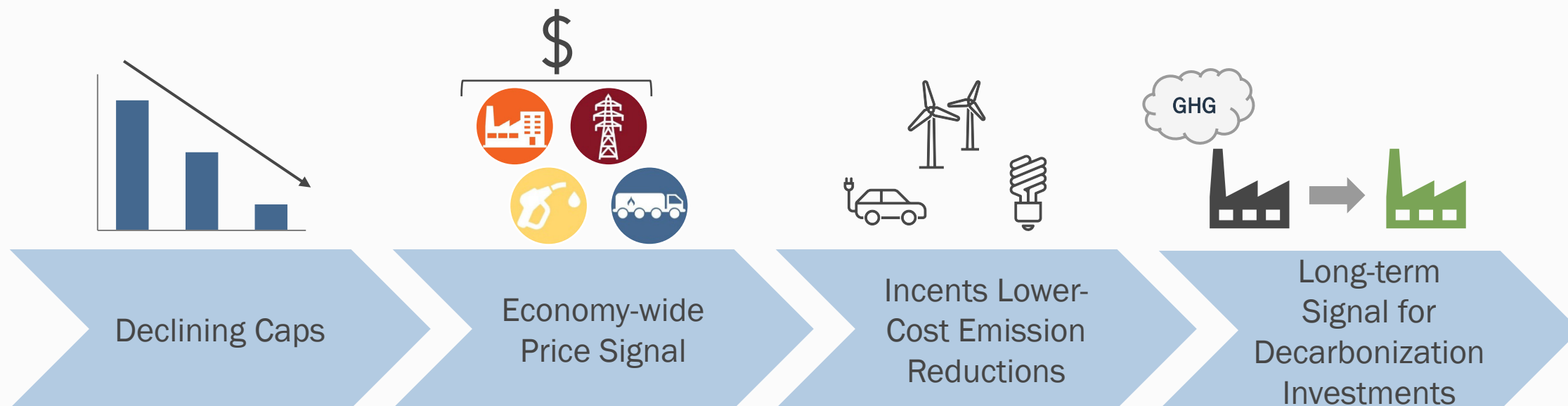
Projected Allowance Budgets Over Time*

million metric tons of CO₂ equivalent



*does not reflect HB 1975

Cap-and-Invest: Achieving emissions reductions





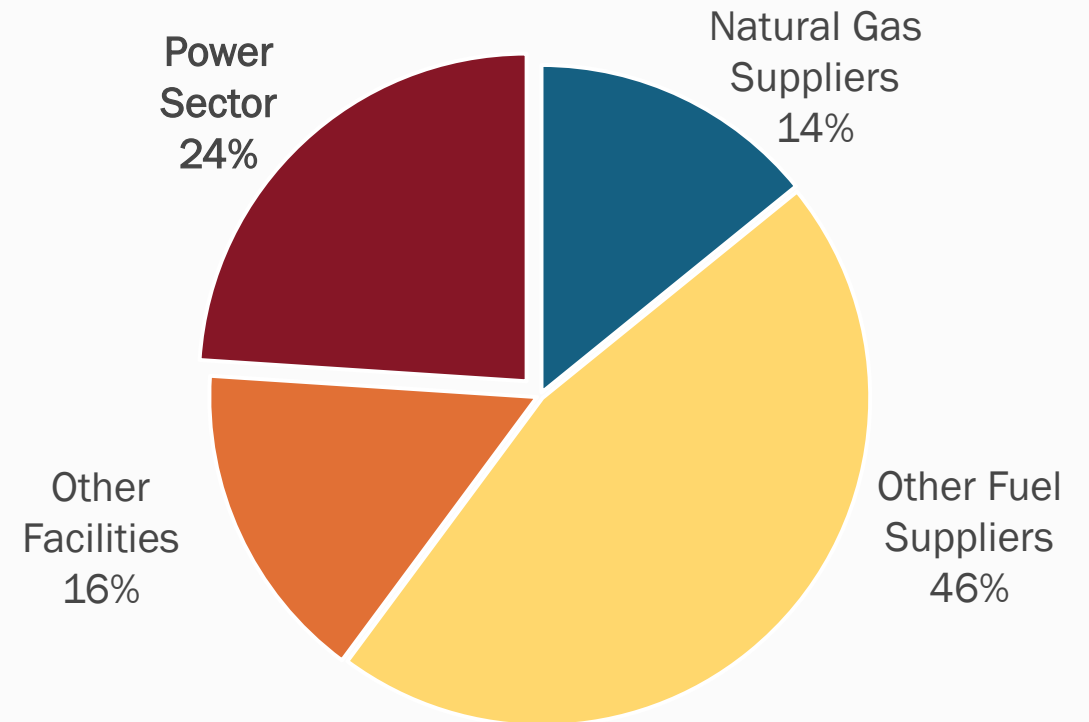
Overview of covered emissions and allocation

Washington 2023 covered emissions

Total covered emissions: 64 million MT CO₂e

- Power sector (imports and in-state generation): 24%, 15.3 million MT CO₂e
- Facilities (excluding in-state generation): 16%, 10.2 million MT CO₂e
- Fuel suppliers: 46%, 29.5 million MT CO₂e
- Natural gas suppliers: 14%, 15.3 million MT CO₂e

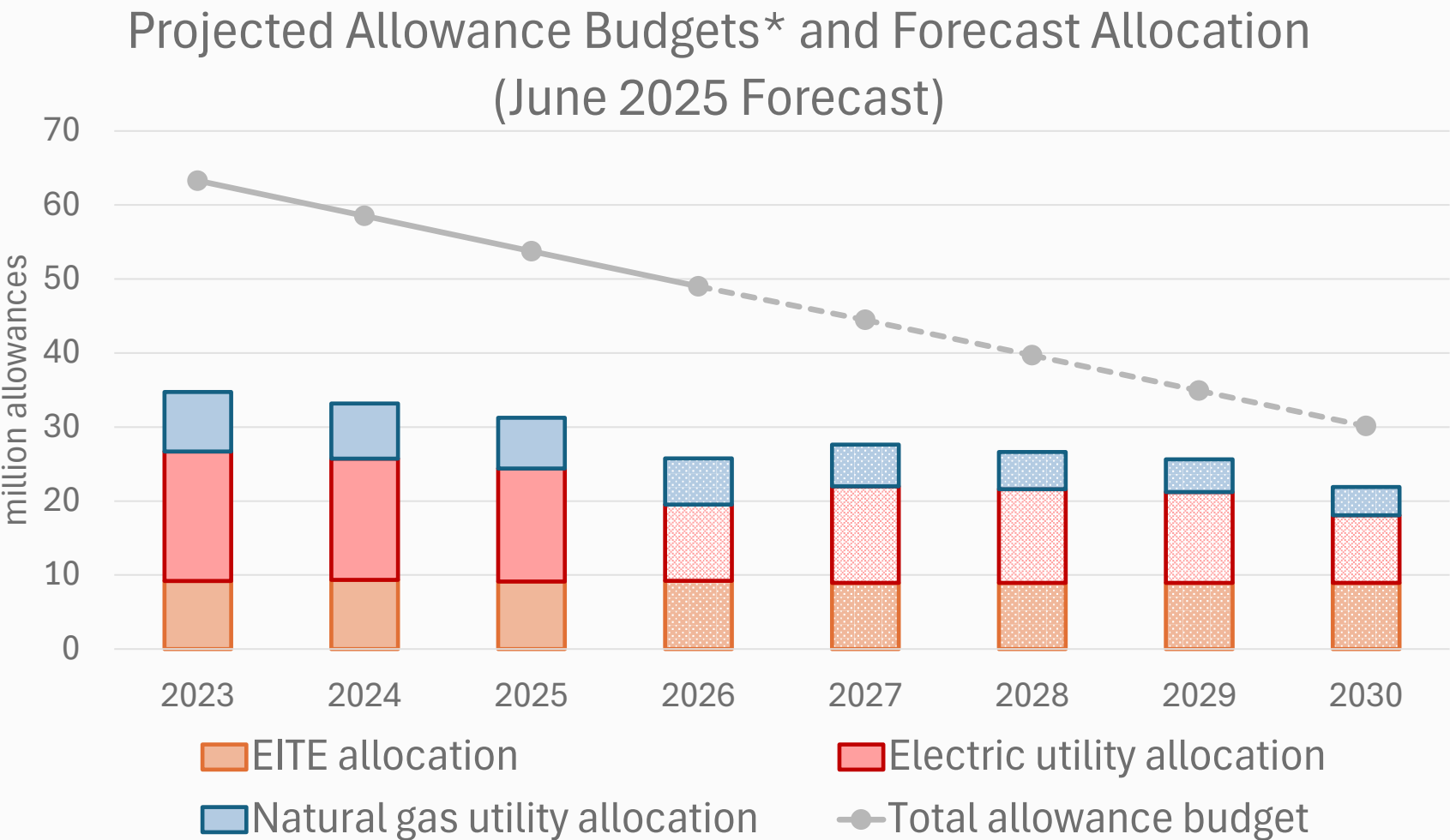
Total Cap-and-Invest Program
2023 Covered Emissions



Overview: no-cost allowances

- No-cost allowances provided from economy-wide annual budgets aligned with state emission limits and specified in rule
- No-cost allowances allocated to:
 - Electric utilities
 - Natural gas utilities
 - Emissions-intensive, trade-exposed industries
- Vintage 2025 allowance budget:
 - Electric utility allocation: 28%
 - Natural gas utility allocation: 13%
 - Emissions-intensive, trade-exposed industries: 17%

Forecast: Allowance budgets and no-cost allowances



*does not reflect HB 1975



Electric sector emissions and Washington context

Cap-and-Invest and CETA

complementary tools for decarbonization and state emission limits

- CETA
 - Clean energy standard for electric power
 - Planning requirements
 - Targeted requirements to achieve key goals (e.g., no coal)
- Cap-and-Invest
 - Economy-wide program budgets aligned with state emission limits
 - Carbon price drives flexible, least-cost GHG emissions reductions
 - Long-term price signal incents clean energy and decarbonization investments

CETA key to electricity decarbonization

- December 31 2025: Removal of coal from WA electricity portfolio
- 2030-2044: GHG Neutral Standard
 - Utilities and affected market customers must use renewable or non-emitting generation in an amount greater than or equal to 80% of electric load
 - Remaining 20% may be met with alternative options
- 2045: 100% Clean Electricity Standard
 - 100% of load must be met with renewable or non-emitting resources.

CETA GHG Neutral Standard requires utilities to plan for high use of renewable or non-emitting resources. Progress towards CETA compliance creates some bounds on allocation to electric utilities.

Through 2044, CETA compliance may not drive proportionate emission reductions consistent with declining economy-wide Cap-and-Invest Program allowance budgets or state emission limits.



Overview of electric utility allocation

Purpose of electric utility allocation

Statute directs Ecology to allocate no-cost allowances to electric utilities “in order to mitigate the cost burden” of the Cap-and-Invest Program, protecting Washington consumers of electricity.

Utilities subject to the Clean Energy Transformation Act are eligible for allocation of no-cost allowances.

(RCW 70A.65.120(1))



Cost burden explained (1)

"Cost burden" means 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. Cost burden includes administrative costs from the utility's participation in the program. (RCW 70A.65.010(21))

Cost burden explained (2)

No-cost allowance allocation mitigates

- **Direct compliance costs** of Cap-and-Invest, associated with a utility's own electricity imports and generation used to serve Washington customers
- **Indirect costs** associated with electricity purchases that are covered by Cap-and-Invest upstream of the utility

Allocation is based on forecasts of potential cost burden associated with a utility serving its WA retail load



Overview of allocation method

- Incorporates forecasts of each utility's retail electric load and resource supply used to meet retail load
- Forecasts of resource supply projected to serve retail electric load are multiplied by applicable greenhouse gas emission factors
- Forecasts should represent best estimate of retail electric load and most likely electricity resource mix used to supply retail electric load



Allocation design: Potential rule updates

Cap-and-Invest Program allocation strategy

Rules and implementation must consider

- Program-wide allowance caps covering transportation, electricity, industrial, and natural gas sectors
- Support achievement of state GHG emission limits
- Environmental integrity and market functionality
- Statutory requirements

Electric utility allocation: Considerations

- Mitigate cost burden in electricity delivered to customers in Washington communities
- Improve certainty for market actors and allocated utilities
- Preserve and strengthen decarbonization and emission reduction incentives
- Continue to reserve Ecology ability to adjust allocation in specified circumstances
- Limit implementation burden

Potential rule updates: Initial concept

- Publish v2027-2030 allocation schedule October 2026
 - Published October 2026 schedule determines distribution except for prescribed adjustments.
 - Potential for small modifications to allocation calculation approach to strengthen cost burden mitigation to Washington communities.
- Summary of modifications
 - Remove WAC 173-446-230(2)(g). Replace with a backwards looking adjustment only applicable in specified circumstances.
 - Remove “revised forecast” provision within WAC 173-446-230(2)(j).
 - Potentially add modifications to allocation calculation.

Potential rule updates: WAC 173-446-230(2)(g) replacement

- Limit consideration of adjustments accounting for previous calendar years to instances of
 - Misleading forecasts of retail load or resource supply used to meet retail load that were not reflective of best estimates at the time of retail load or resource supply used to meet retail load
 - Divergence from forecast retail load of over 15% resulting in cumulative allocation significantly diverging from cost burden
 - Per request of utilities
- Any adjustment would continue to be implemented by adjusting future vintage no-cost allowances not yet distributed

Potential rule updates: Modifications to allocation calculation

1. Adopt unspecified assumption already implemented in allocation calculation into rule
 - *For all utilities that are not load-following customers of BPA, Ecology adjusts forecasts of resource supply to indicate a minimum of 5% of resource supply from unspecified resources, if forecasts did not already have resource supply where the sum of NG, coal, and unspecified resources is not already greater than or equal to 5%.*
2. Ecology considering applying small upwards adjustment to all best-estimate forecasts of retail load to mitigate additional load growth
3. For purposes of allocation, Ecology considering applying BPA ACS emission factor of 0.05 for 2027-2030 allocation schedule

Modifications intended to strengthen cost burden mitigation to Washington communities while preserving decarbonization incentives provided by a stable allocation schedule.

Allocation design: Feedback

- Ecology requests feedback on
 - Initial concept for v2027-2030 allocation and schedule (slide 26)
 - Potential replacement of WAC 173-446-230(2)(g) (slide 27)
 - Potential modifications to the allocation calculation (slide 28).



Administrative Allocation: Potential Rule Updates

Administrative allocation: Background

- Statute directs Ecology to provide no-cost allowances to electric utilities to mitigate cost burden, including administrative costs from utility's participation in the Cap-and-Invest Program.
- Oct. 2022: WAC 173-446-230(2)(h) adopted. Enables utilities to receive allowances associated with documented administrative costs.
- Late 2024: Utilities indicated they could not meet documentation requirements in rule. Requested Ecology develop a standardized calculated method to mitigate administrative costs.
- Summer 2025, Ecology requested estimates of utility administrative costs from participation in the Cap-and-Invest Program to support a calculated method.

Administrative allocation: Considerations

- Lightweight and low-barrier method
- Certainty of allocated amount
- Value to utilities
- Consistency with statute and programmatic limitations

Administrative allocation: Concept 1

Distribute all no-cost allowances to mitigate administrative costs for the 1st and 2nd compliance periods in October 2026

- Utilities w/ CY2026 retail load >500,000 MWh
 - 1st compliance period: 5,000 allowances per utility
 - 2nd compliance period: 4,000 v2027 allowances per utility
- Utilities w/ CY2026 retail load <500,000 MWh
 - 1st compliance period: 3,300 allowances per utility
 - 2nd compliance period: 2,700 v2027 allowances per utility

Administrative allocation: Concept 2

Distribute all no-cost allowances to mitigate administrative costs for the 1st compliance period in October 2026. Distribute no-cost allowances for 2nd compliance period annually dependent on auction price.

- Utilities w/ CY2026 retail load >500,000 MWh
 - 1st compliance period: 6,000 allowances per utility
 - 2nd compliance period: ~\$50,000 worth of allowances per utility each year
- Utilities w/ CY2026 retail load <500,000 MWh
 - 1st compliance period: 4,000 allowances per utility
 - 2nd compliance period: ~\$34,000 worth of allowances per utility each year

Administrative allocation: Additional details

- Ecology considering mechanisms to enable allocation provided in October 2026 to mitigate 1st compliance period administrative costs to be applied to 1st compliance period obligations.
- Ecology considering requesting updated data on administrative costs in 2030 to inform allocation for 3rd compliance period.

Administrative allocation: Feedback

- Ecology requests feedback on Concept 1 (slide 33) and Concept 2 (slide 34) for providing no-cost allowances to mitigate administrative costs.



Use of no cost allowances: Potential rule updates

Consignment requirements: Background

- Consignment of no-cost allowances incents efficient GHG reductions by supporting the carbon price in utility operations, including in dispatch and acquisition of fossil-fueled resources.
- Proceeds from consignment must be used for the benefit of ratepayers and prioritized to low-income customers (RCW 70A.65.120(4))
- No requirement to consign any quantity of no-cost allowances in first compliance period (RCW 70A.65.120(3)(a))
- Statute directs Ecology to adopt rules on the quantity of no-cost allowances that must be consigned during the second compliance period (RCW 70A.65.120(3)(b))

Consignment requirements: Potential concept

- For no-cost allowances not associated with supply of BPA system power, Ecology potentially considering requiring consignment of 50% of provided v2027-v2030 allowances and an increased percentage for 2031 and beyond.
 - Provide exceptions to allow utilities to use no-cost allowances for direct compliance as required in statute.
- Clarify existing rules (WAC 173-446-230(6), WAC 173-446-425) that no-cost allowances may be used for the utility's direct compliance, consignment, or transfer to a federal power marketing association as prescribed in statute.

Consignment requirements: Feedback

- Ecology requests feedback on the initial concept for consignment of no-cost allowances for v2027 and beyond (slide 39).
- Ecology also requests feedback on other aspects of allocation or Program design that could strengthen the Program's ability to access economically efficient GHG reductions.



Allocation forecast details: v2027-2030

Estimated rulemaking and allocation timing

- **By Oct. 1, 2026:** Amended rule adopted
 - Cap-and-Invest Program Updates and Linkage
 - Projected adoption summer 2026
- **By Oct. 1, 2026:** Intend to publish allocation schedule for 2nd compliance period
- **Oct. 24, 2026:** v2027 allocation distributed
 - Intend to include allocation associated with mitigating administrative costs from 1st compliance period in Oct 2026 distribution
- **Nov 1, 2026:** Compliance event for CY 2025 covered emissions

Overview of 2027-2030 forecast development

- For utilities submitting forecasts beyond what is available in IRPs, CEIPs, and BPA forecasting, Ecology requests any specific forecasts be submitted no later than July 30, 2026.
- Consistent with rule, forecasts should be
 - Best estimates of retail load and resource supply used to meet retail load
 - Consistent with a utility's Clean Energy Implementation Plan
- Utilities should not modify forecast approach based on potential updates to the allocation calculation (slide 34). Any updates would be applied by Ecology to utility forecasts representing best estimates of retail load and resource supply.
- Ecology is considering clarifying updates to promote consistent forecast approach.

Potential clarifying updates: Retail load

Current rule

- WAC 173-446-230(2)(a): Ecology will use utility-specific demand forecasts that provide estimates of retail electric load.
- WAC 173-446-020: "Retail electric load" has the same meaning as specified in RCW 19.405.020.
- RCW 19.405.020(35): "Retail electric load" means the amount of megawatt-hours of electricity delivered in a given calendar year by an electric utility to its Washington retail electric customers. "Retail electric load" does not include:
 - (a) Megawatt-hours delivered from qualifying facilities under the federal public utility regulatory policies act of 1978, P.L. 95-617, in operation prior to May 7, 2019, provided that no entity other than the electric utility can make a claim on delivery of the megawatthours from those resources; or
 - (b) Megawatt-hours delivered to an electric utility's system from a renewable resource through a voluntary renewable energy purchase by a retail electric customer of the utility in which the renewable energy credits associated with the megawatt-hours delivered are retired on behalf of the retail electric customer.
- Under current rule, supply from PURPA facilities and supply supporting voluntary renewable energy purchases should be reflected as reductions in retail load rather than a non-emitting or renewable resource.
- Potential update: Modify WAC 173-446 so that all resources supplying retail load are incorporated consistently in forecasts used for allocation.

Potential clarifying updates: Retail load

Potential update: Modify WAC 173-446 so that all resources supplying retail load are incorporated consistently in forecasts used for allocation.

Potential rule

- WAC 173-446-230(2)(a): Ecology will use utility-specific demand forecasts that provide estimates of retail electric load. (no change)
- WAC 173-446-020: "Retail electric load" means the amount of megawatt-hours of electricity the amount of megawatt-hours of electricity delivered in a given calendar year by an electric utility to its Washington retail electric customers and losses.
- WAC 173-446-230(2)(d)(iii)

Use an emission factor of zero for the proportion of load identified as being served by a

- nonemitting or a renewable resource in the clean energy implementation;
- qualifying facility under the federal public utility regulatory policies act of 1978, P.L. 95-617, in operation prior to May 7, 2019,
- a nonemitting or renewable resource supporting a voluntary renewable energy purchase by a retail electric customer

Further guidance on retail load

Initial guidance for utilities that intend to develop a forecast specific to supporting no-cost allowance allocation:

- Calculation of no-cost allowances is intended to account for the amount of electricity needed to serve retail load, which is inclusive of retail sales and losses.
 - Retail load is typically 5%-9% larger than retail sales.
 - Ecology requests that utilities review forecasts of retail load in the context of historic and forecast utility retail sales and resource supply data.
- Consistent with rule, forecasts used in no-cost allowance allocation should reflect best estimates at the time, inclusive of forecasts of behind-the-meter, energy efficiency, and demand response resources or programs.
 - For consistency, Ecology requests that impacts of resources or programs that reduce forecast retail sales to be reflected in reductions to retail load, rather than as a non-emitting or renewable energy resource supply.

2027-2030 forecasts: Feedback

- Ecology requests feedback on the timing of forecasts and schedule publication for 2027-2030 including:
 - Should Ecology plan to publish a “draft” of the 2027-2030 allocation schedule using available data before October 1, 2026?
 - Should Ecology request any no-cost allowance specific forecasts be submitted earlier than July 30, 2026?
- Ecology requests feedback on the potential clarifying updates related to retail load as used for no-cost allowance allocation under WAC 173-446 (slide 45).
- Ecology requests feedback on the initial guidance related to retail load? Should Ecology provide further guidance on any topics to support development of 2027-2030 topics (slide 46).

Resources

- [No-cost allowance allocation page](#)
 - Allocation schedule and data
 - Allocation adjustment information
 - October 2024 workshop and public comment
- [Current Cap-and-Invest Program Updates and Linkage Rulemaking](#)
 - 2025 Workshops and public comment
- [Initial Climate Commitment Act Program \(Cap-and-Invest\) Rulemaking](#)
 - Rulemaking documents

Requests for feedback

- Allocation design (slide 29)
- Administrative allocation (slide 36)
- Consignment requirements (slide 40)
- Forecast details (slide 45)

Questions & comments

- We invite public written comment on Ecology's planned direction on these topics be submitted to the [electric utility allocation comment form](#) by December 5.
- Contact CCAutility@ecy.wa.gov regarding a utility's specific calculation of no-cost allowance allocation.





Thank you



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