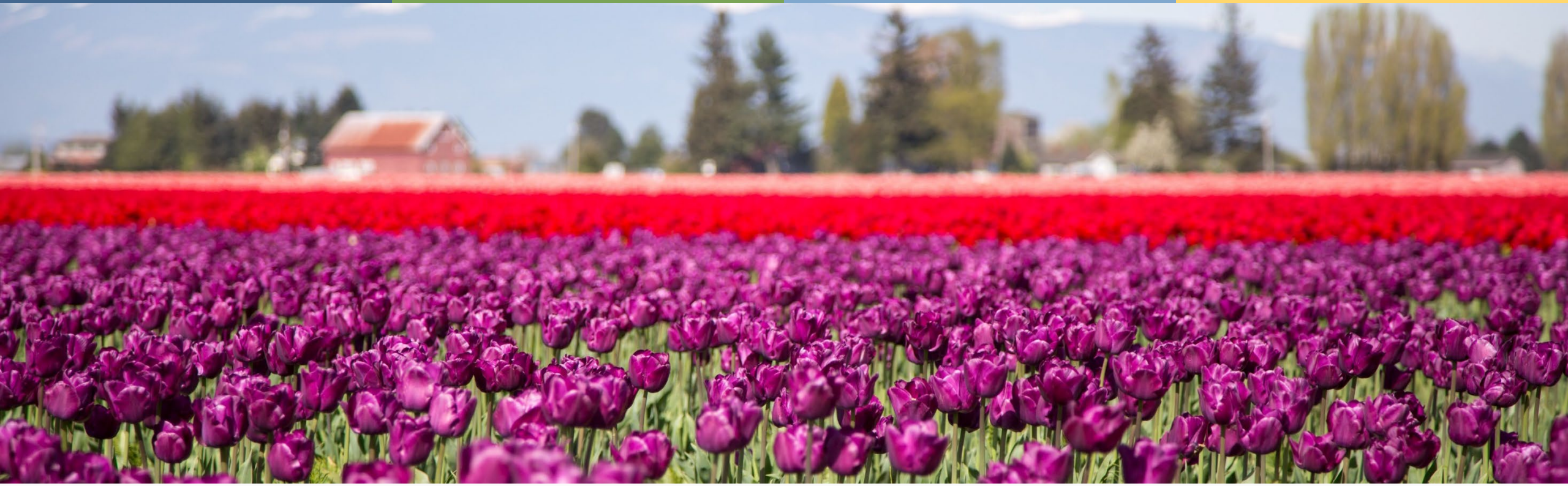
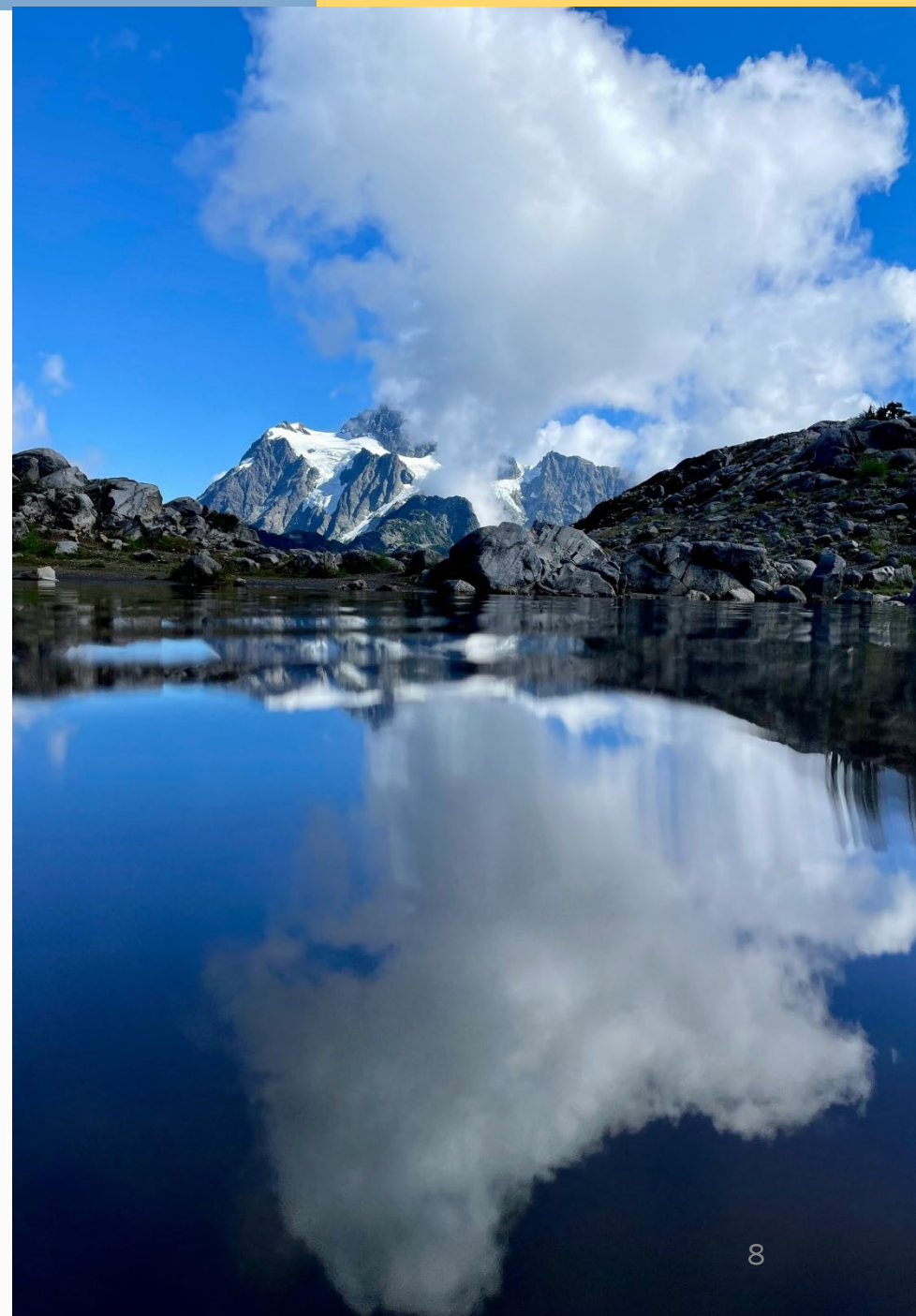


Cap-and-Invest: No-cost allowance allocation for electric utilities

April 17, 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 May 2, 2025, 11:59 p.m.



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

- Jihan Grettenberger –Cap-and-Invest Outreach Specialist
- Surabhi Subedi – Technical Host
- Andy Hayes – Cap-and-Invest Policy Section Manager
- Camille Sultana – Cap-and-Invest Environmental Planner

Agenda

- Overview of electric utility allocation
- Allocation and Washington trends
- Allocation topics
  - Vintage 2026 allocation
  - Allocation adjustments
  - Administrative allocation
- Questions and feedback period

Overview of electric utility allocation

Purpose of electric utility allocation

Ecology allocates no-cost allowances to electric utilities 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.

Cost burden explained

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

Overview of allocation method

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

Cost burden versus compliance obligation

- Electric utility allocation is not based on an entity's total compliance obligation as a facility operator or electricity importer.
- Electricity produced by an in-state facility or imported by an electricity importer does not necessarily serve load of a single or any WA utility.
- Not all in-state generation facilities or electricity importers are utilities or associated with utilities.
- A utility may incur a compliance obligation **less** than their forecast cost burden associated with WA retail load if they primarily supply electricity that is covered by Cap-and-Invest upstream of the utility.
- A utility may incur compliance obligations **greater** than their forecast cost burden associated with WA retail load if they import electricity or operate an in-state facility and their imported or produced electricity is sold or does not solely serve their WA retail load.

Allowable uses of no-cost allowances

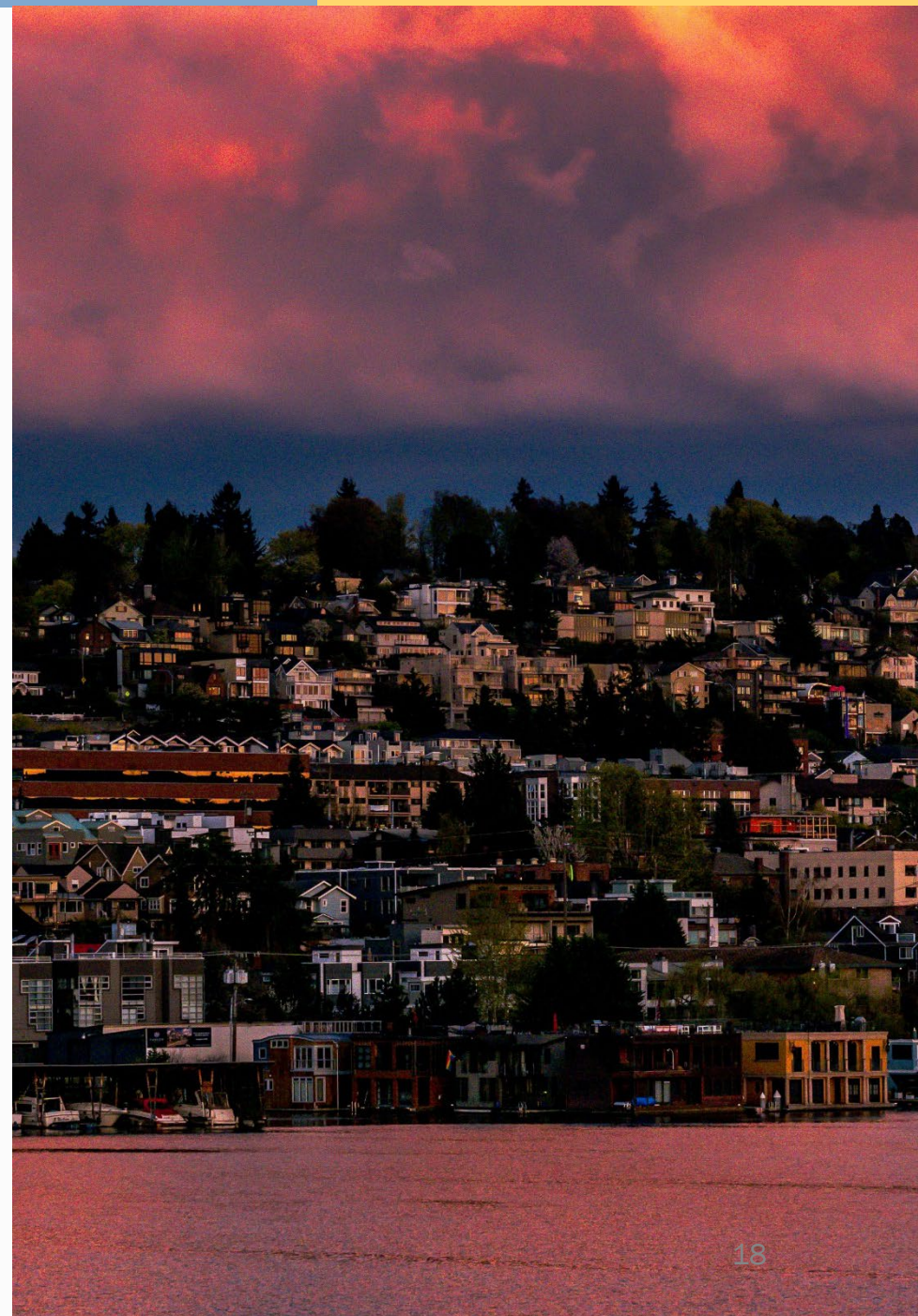
- Cap-and-Invest compliance
- Transfer to eligible generation facilities or federal system providing the utility power
- Offer for sale at quarterly auctions (consign)
- Hold for eligible uses

Electric utilities may not otherwise sell or trade no-cost allowances.

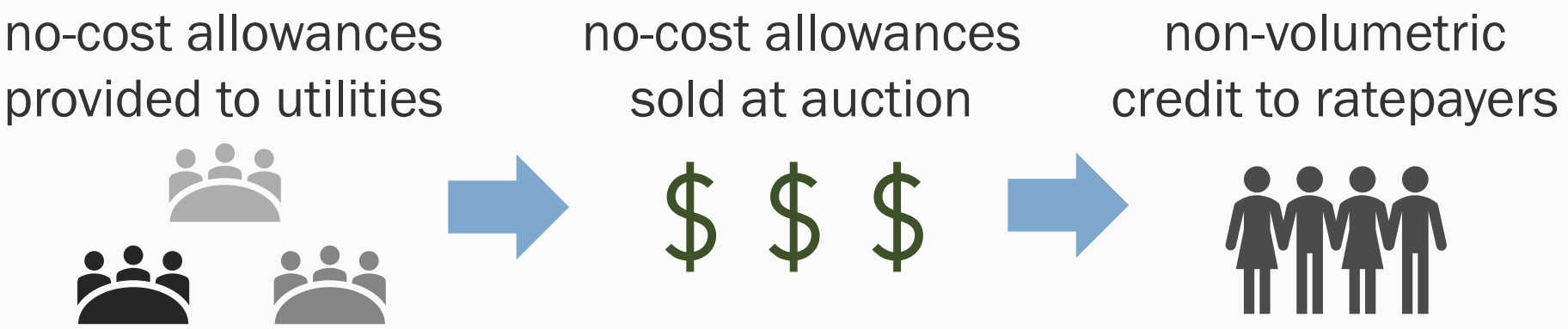
Allocation rules prioritize equity

Consistent with statute (RCW 70A.65.120):

- All proceeds from the sale of no-cost allowances at quarterly auctions must benefit utility customers
  - First priority is mitigation of rate impacts to low-income customers



Allocation for ratepayer protection: non-volumetric credits example



- Proceeds from sale of no-cost allowances at auction could be returned to ratepayers as non-volumetric bill credits.
- Non-volumetric: Not based on energy consumption.
- Established tool to protect ratepayers from cost burden of a market program while maintaining the carbon price signal and decarbonization incentives

Overview of allocation timing

- Allowance allocation is distributed annually by October 24.
- Allowance vintage (v) aligns with upcoming calendar year.
  - For example, allocation provided Oct. 24, 2025 will be vintage 2026 (v2026) allowances.
- 2026 is last year in first compliance period.
- Initial allowance allocation schedule for second compliance period will be published by Oct. 1, 2026.

Electric utility allocation and Washington trends

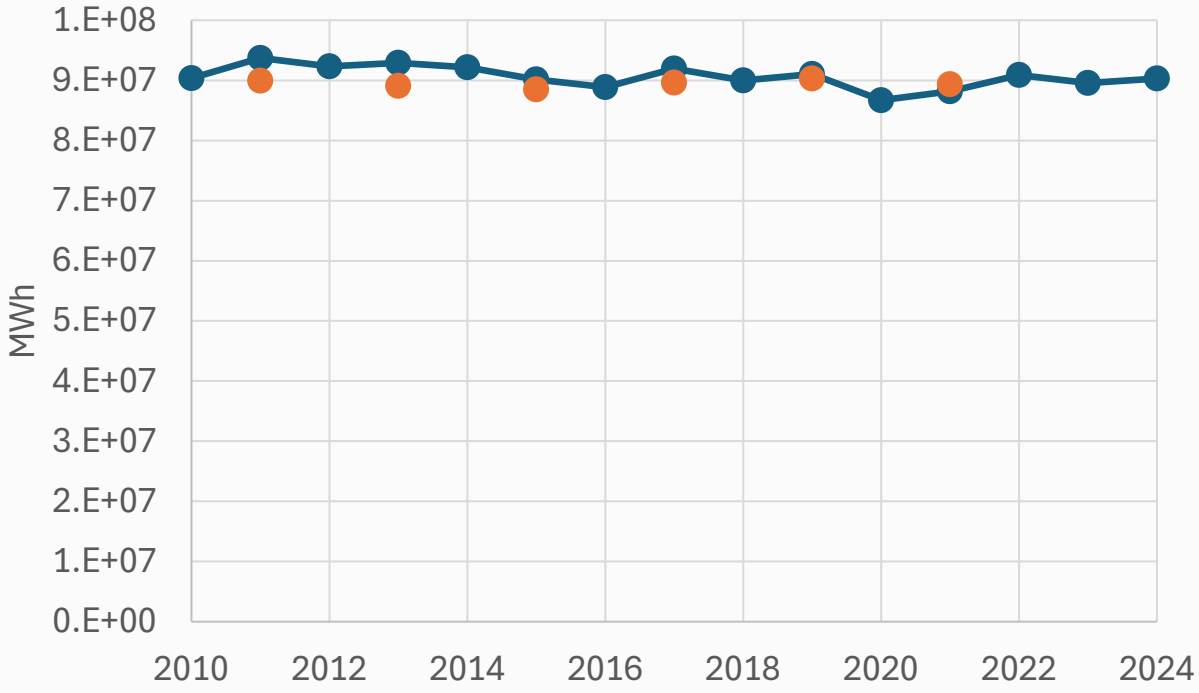
Washington 2023 power sector emissions

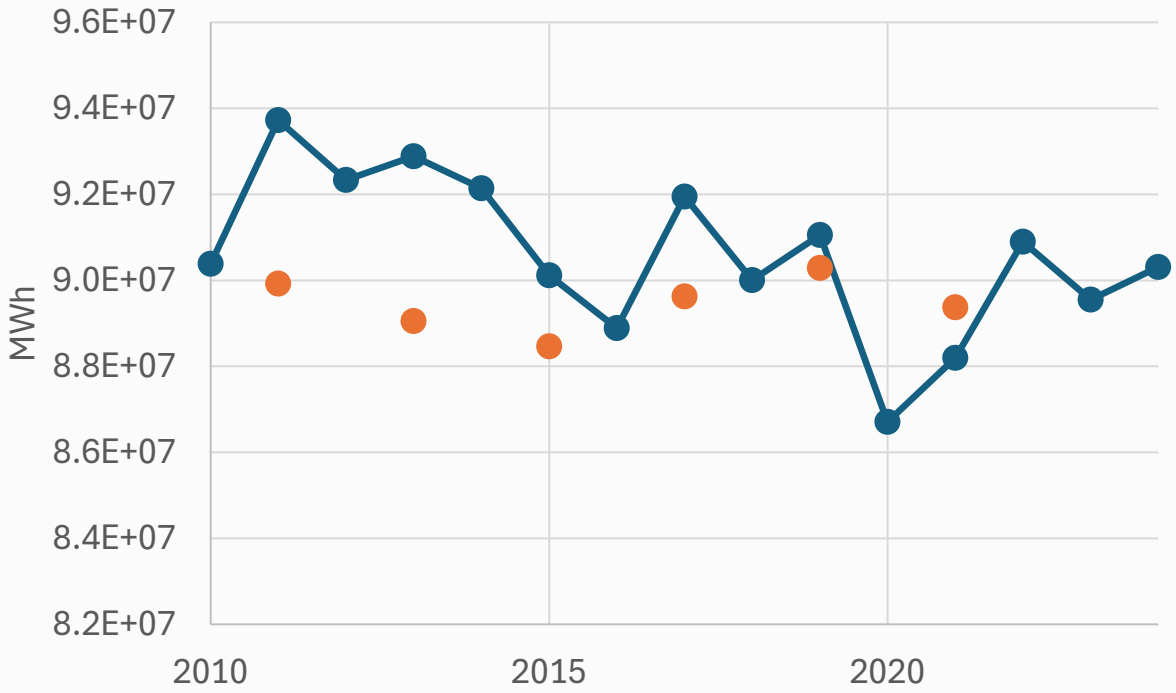
- Total in-state generation facilities covered emissions
  - 8.0 million $MTCO_2e$
- Total electricity imports covered emissions
  - 7.3 million $MTCO_2e$
- Total power sector covered emissions
  - 15.3 million $MTCO_2e$
  - May be associated with WA retail power provided by utilities, power directly purchased by governmental, commercial, or industrial entities, or power not supporting WA load (in-state facility only)

2023 allocation to electric utilities

- 17.5 million vintage 2023 allowances provided
  - 114% of total 2023 power sector covered emissions
- 16.4 million allowances will be provided for 2023 after accounting for balancing/EIM adjustment
  - 107% of total 2023 power sector covered emissions

Washington historic retail load



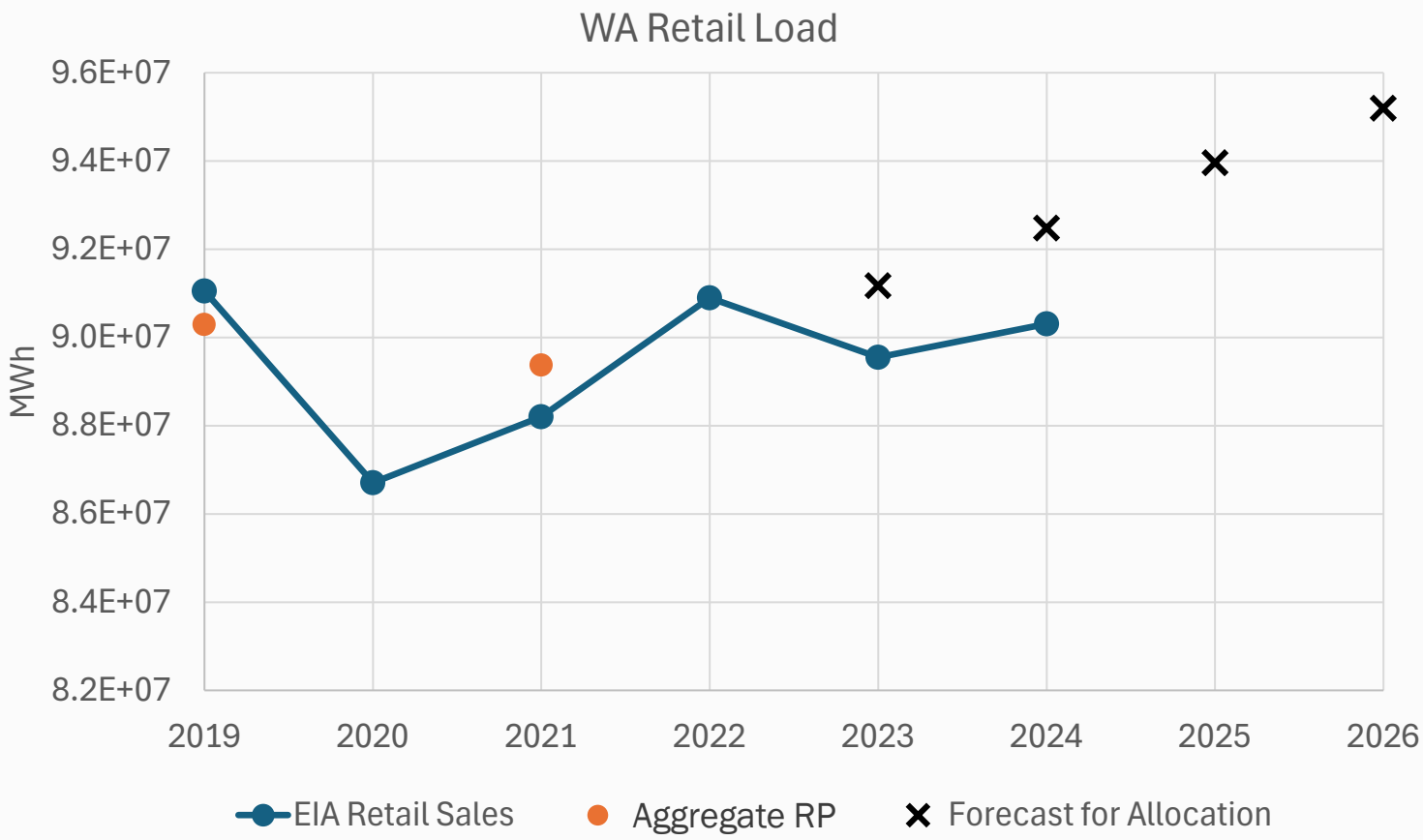


EIA: retail sales[1] **Aggregate utility resource plan base-year load[2]**

1. EIA, Monthly Retail sales of electricity to ultimate customers, form EIA-861M.
2. Washington Dept. of Commerce, Washington State Electric Utility Resource Planning: 2022 Report, Table 4.

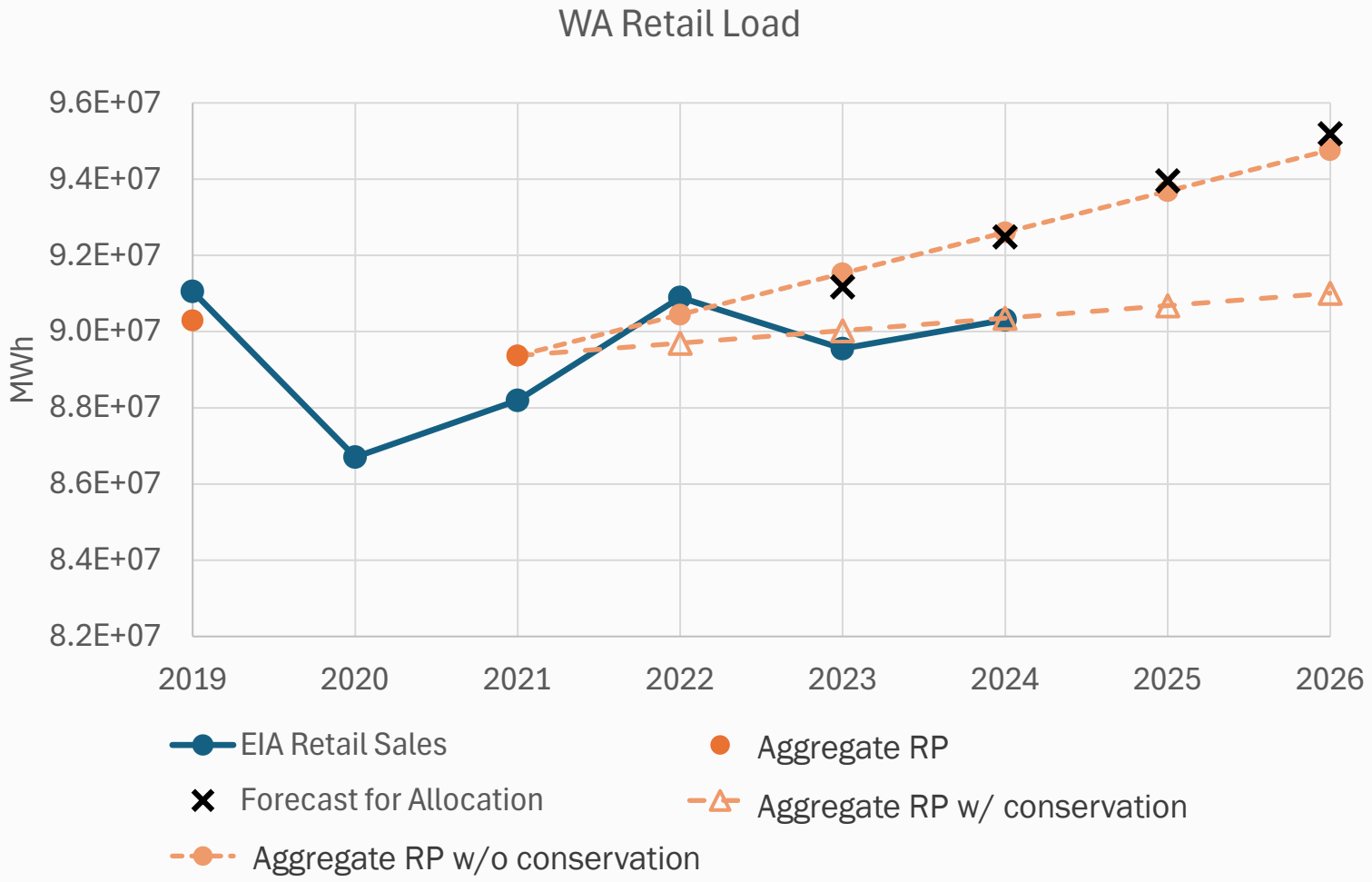
Retail load in allocation forecast compared to historic data

Forecast of retail load used for allocation increases annually by ~1.5%



Retail load in allocation forecast compared to resource plan forecasts

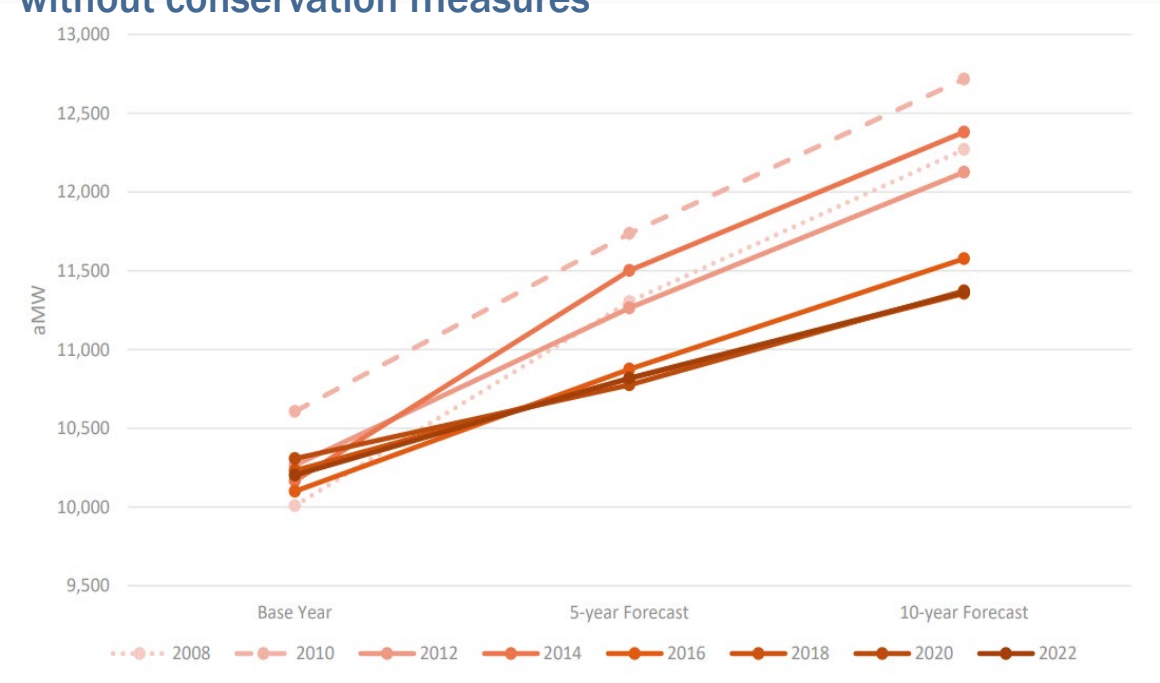
Forecast of retail load used for allocation follows aggregated utility resource plan forecasts of retail load assuming no additional conservation measures



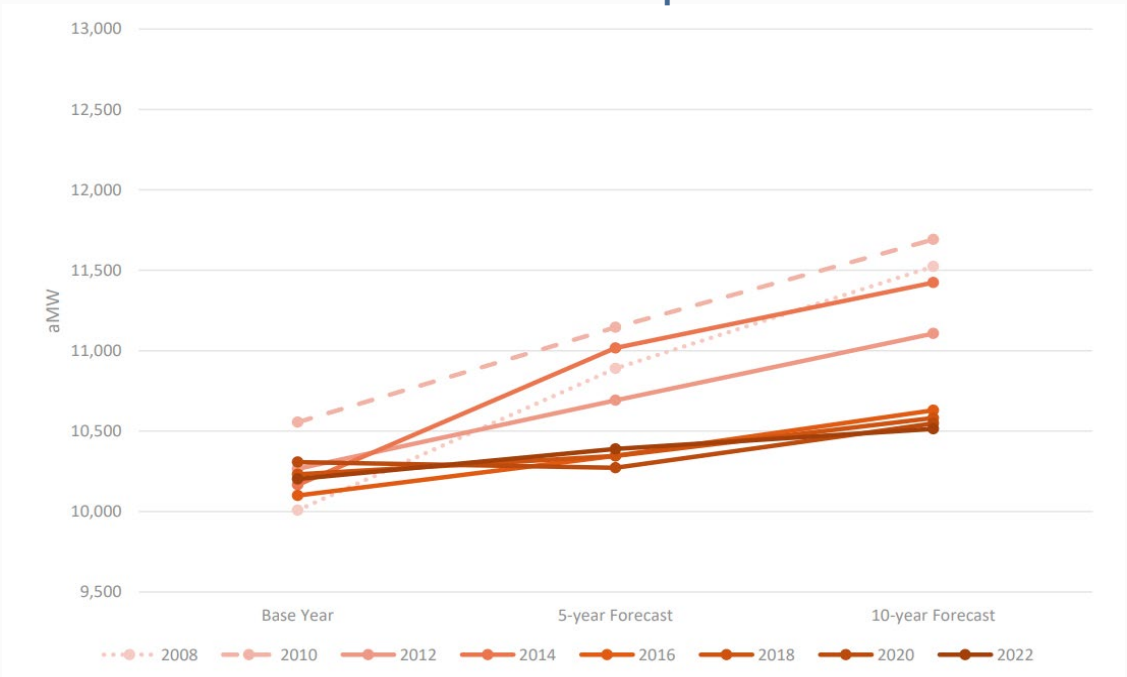
Washington Dep. of Commerce, Washington State Electric Utility Resource Planning: 2022 Report, Tables 4 and 5.

Energy conservation measures have historically offset projected load growth

Utility report time series – Base year and forecast loads without conservation measures[1]



Utility report time series – Base year and forecast loads with conservation and demand response[1]



Statewide aggregated utility forecasts of load growth without additional conservation measures have consistently overestimated load experienced.

Statewide utility load forecasts for 2021-2026, compiled by Commerce, indicate load growth would likely be mostly offset by energy conservation and demand response.[1]

1. Washington Dep. of Commerce, Washington State Electric Utility Resource Planning: 2022 Report.

Washington load growth may exceed historic trends

- In past two years, projections of Pacific Northwest 5-year annual load growth rate have increased from ~1% to 4%, driven by data center expansion[1]
- Resource plans indicate significant data center growth in WA may be concentrated in a handful of COUs[2]
- Data center and high-density load challenging to predict
  - Load or plans for load can materialize or dissipate in short time frames

1. PNUCC, 2024, Northwest Regional Forecast of Power Loads and Resources.

First compliance period allocation topics

Considerations for electric utility allocation

- Alignment with program rule and statute
- Mitigation of potential cost-burden imparted by program compliance
- Preserve greenhouse gas emission reduction incentives
- Preserve incentive for accurate forecasting using best available data
- Consistent and predictable approach across utilities
- Implementation feasibility

First-compliance period allocation topics

- Vintage 2026 allocation
- Adjustments to allocation
- Administrative allocation

Vintage 2026 allocation

Planned approach outlined in Oct. 2024 workshop

- Update BPA ACS emission factor (EF) used for v2026 allocation
- Update load-following COUs total retail load and BPA MWh with public data outputs from BPA's BP-26 Rate Case
- Forecast updates from non-load following COUs and IOUs may be submitted
- Updates to EIM/balancing and BPA EF assumptions applied to 2023 and 2024 forecasts used in v2023 and v2024 allocation. Adjustments accounting for difference from distributed v2023 and v2024 allocation, will be applied to v2026- v2030.

Bonneville Power Administration emission factor (BPA EF)

- Allocation is updated annually to use the new BPA EF, consistent with WAC 173-446-230(2)(d)(v)
- Allocation shown for future years is provisional and uses a default BPA EF, calculated as a 3-year rolling average of the published BPA EF
  - Resource: Ecology publication of annually updated ACS EFs
- Impacts to v2026 allocation
  - v2026 allocation in the currently published schedule is provisional and reflects use of a default BPA EF (avg. of 2023-2025)
  - v2026 allocation, provided Oct. 2025, will apply the BPA EF used in reporting data year 2026

Load-following COUs

- Update load-following COUs total retail load and BPA MWh with public data outputs from BPA's BP-26 Rate Case
  - BP-26 Rate Case page
  - BP-26 Rate Case Data
- Will use same method outlined in ReadMe tab of allocation dataset, rows 34 & 35, describing BPA data sources for v2025 allocation
- No action required from load-following COUs unless BPA data is inconsistent with utility forecasts

Submitting forecasts to Ecology

- A utility may choose to submit an updated forecast for 2026 retail supply and demand to be used for v2026 allocation.
- Any submitted forecast or supporting data must meet criteria in 173-446-230, including approval by the UTC or the COU governing board by July 30, 2025.
- Ecology requests that utilities choosing to submit an updated forecast for 2026, submit by August 15, 2025.
- Submit forecasts to CCAutility@ecy.wa.gov.

Revised balancing/EIM assumption

- For all utilities whose load is not balanced by a federal power marketing administration:
  - Forecasts of resource supply apply a minimum of 5% supply from unspecified resources, if utilized or submitted forecasts do not already indicate the sum of natural gas, coal, and unspecified resources as greater than or equal to 5%.
- Updated methods (BPA EF and balancing assumption) applied to all years
  - Applied to v2025 and v2026 allocation derived from 2025 and 2026 forecasts.
  - Applied to 2023 and 2024 forecasts. Adjustments accounting for difference from distributed v2023 and v2024 allocation, applied to v2026- v2030.

Allocation adjustments: Background

- WAC 173-446-230(2)(g): Enables adjustments of future allowances to account for over or under-allocation in previous years.
- Adjustments to v2026-v20230 accounting for updated methods (BPA EF and balancing/EIM) made per WAC 173-446-230(2)(g).
- Consistent with 2022 Concise Explanatory Statement[1] and Oct. 2023 guidance, Ecology will not and has not removed allowances from a utility's account due to previous "overallocation". Ecology may adjust future allocation to account for differences between previously provided allocation and cumulative cost burden.
- Utilities have requested clarification of WAC 173-446-230(2)(g).

1. ECY, 2022, Concise Explanatory Statement, pg 230-231

Allocation adjustments: Guidance considerations

- Improve certainty for market actors and allocated utilities
- Preserve decarbonization and emission reduction incentives
- Continue to reserve Ecology right to adjust allocation in case of purposeful “gaming” of forecasts
- Limit implementation burden

Allocation adjustments: Initial thoughts

Ecology is developing guidance related to WAC 173-446-230(2)(g). We are considering adopting the following guidelines:

Ecology will not seek adjustments related to

- *Market-optimization behavior resulting in lower covered emissions or cost burden relative to forecasts based on best estimates of retail supply at the time*
- *Additional or overachievement of decarbonization or efficiency efforts relative to forecasts based on best estimates of retail load or supply at the time*

Ecology may consider adjustments related to

- *Misrepresentation of forecast load or retail supply that was not reflective of best estimates at the time*
- *Significant divergence from forecast retail load due to high-density load, resulting in cumulative allocation significantly diverging from cost burden*
- *Per request of utilities*

Allocation Adjustments: Guidance implementation

- Formalize in written guidance published post-June 2025
- Annually, “close the books” for past year post-verification deadline, similar to approach for 2023

Proposed approach for allocation mitigating 1st compliance period cost burden. 2nd compliance period approach may be updated based on discussions in rulemaking.

Administrative allocation: Background

- Statute directs Ecology to provide no-cost allowances to electric utilities to mitigate the cost burden of the program, including administrative costs from utility's participation in the program.
- WAC 173-446-230(2)(h), adopted Oct. 2022, enables utilities to receive allowances associated with documented administrative costs.
  - *"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…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…"*
- In late 2024 utilities generally indicated they could not meet documentation requirements in rule and requested that Ecology develop a standardized calculated method to mitigate administrative costs.

Administrative allocation: Calculated method

- Initial concept: Responsive to utility request, Ecology intends to develop a “calculated method” designed to mitigate administrative costs.
- Considerations for a calculated method
  - Mitigate administrative costs associated with participation in program
  - Improve certainty of allocated values
  - Reduce administrative burden

Administrative allocation: Implementation

- Incorporate changes to administrative allocation method in current rulemaking.
- Future request will gather available information on administrative costs to inform calculated method.
- Provide administrative allocation using calculated method for 2023-2026 with v2027 allocation, consistent with updated rule.

Timeline

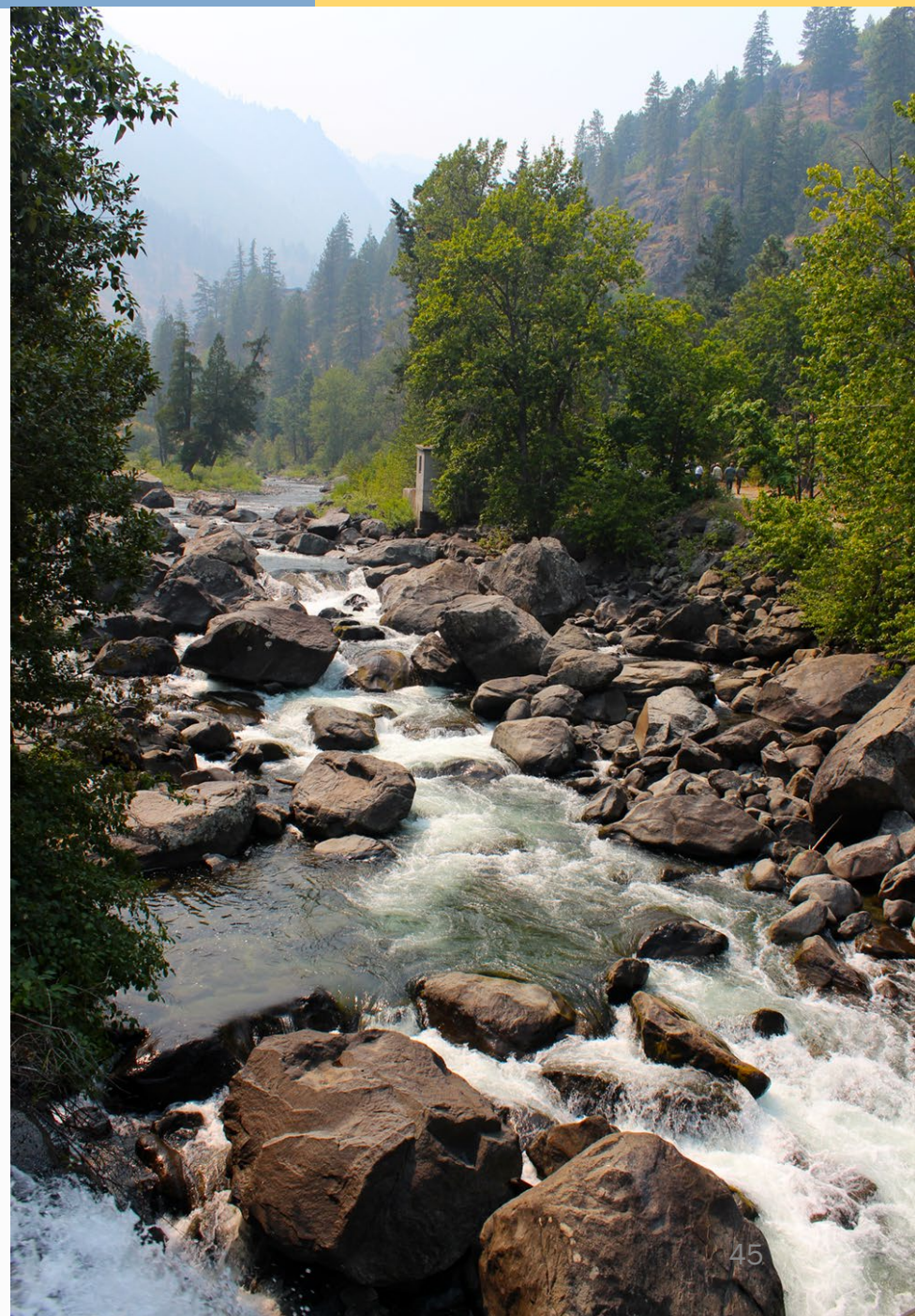
- **Summer-Fall 2025**: Allocation workshop(s) and guidance/rule development impacting 2nd compliance period
- **By Oct. 1 2025**: v2026 schedule republished with updated data
- **Oct. 24 2025**: v2026 allocation distributed
- **By Oct. 1 2026**: Amended rule adopted
  - Cap-and-Invest Program Updates and Linkage
  - Projected adoption summer 2026
- **Oct. 24 2026**: v2027 allocation distributed
  - Intention to include allocation associated with mitigating administrative costs from 1st compliance period

Questions & comments

v2026 allocation, allocation adjustments, administrative allocation

We invite public written comment on Ecology's planned direction on these topics be submitted to the electric utility allocation comment form by May 2.

Please email questions and comments on a specific utility's allocation to CCAUtility@ecy.wa.gov.



Next steps

- Subscribe to updates: Cap-and-Invest Program Updates and Linkage rulemaking
- Contact CCAutility@ecy.wa.gov regarding a utility's specific calculation of v2026 no-cost allowance allocation.
- Submit written comment on Ecology's planned direction on v2026 allocation, allocation adjustments, and administrative allocation by 11:59 p.m. on May 2.

Thank you

ADA Accessibility

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To request an ADA accommodation, contact Ecology by phone at 360-407-6831 or email at ecyadacoordinator@ecy.wa.gov. For Washington Relay Service or TTY call 711 or 877-833-6341. Visit Ecology's website for more information.