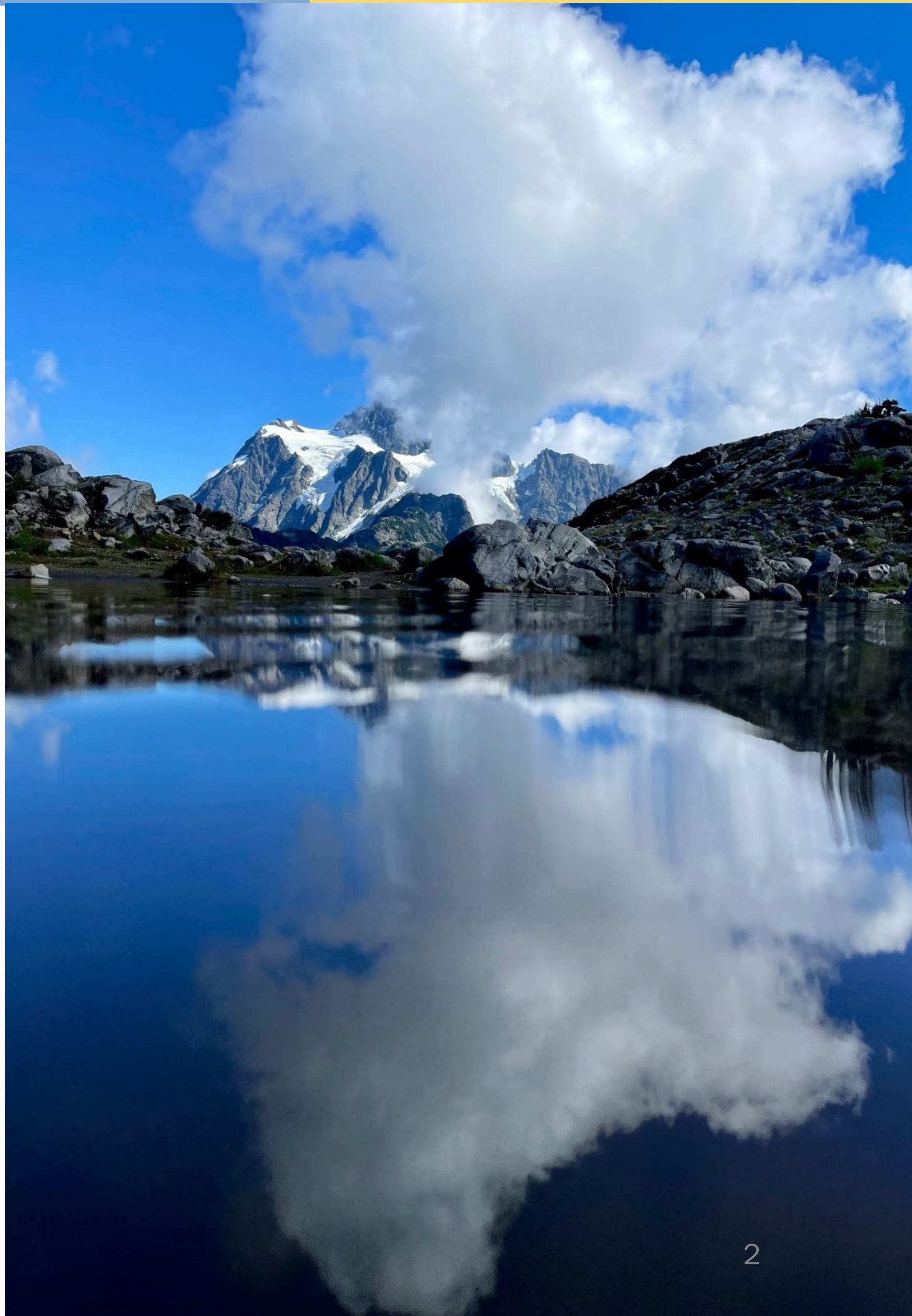
DEPARTMENT OF ECOLOGY
State of Washington

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

July 22, 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 August 8.



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
- Lauren Sanner- Technical Host, Cap-and-Invest Program Updates and Linkage Rulemaking Co-Lead
- Andy Hayes – Cap-and-Invest Policy Section Manager
- Camille Sultana – Cap-and-Invest Environmental Planner

Agenda

- Overview of electric utility allocation
- Electric sector emissions and Washington context
- Allocation topics
  - Use of no-cost allowances
  - Allocation timing
  - Administrative allocation: Data
  - Allocation adjustments
  - 2nd compliance period approach
- Questions and feedback period

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

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

Cost burden versus compliance obligation

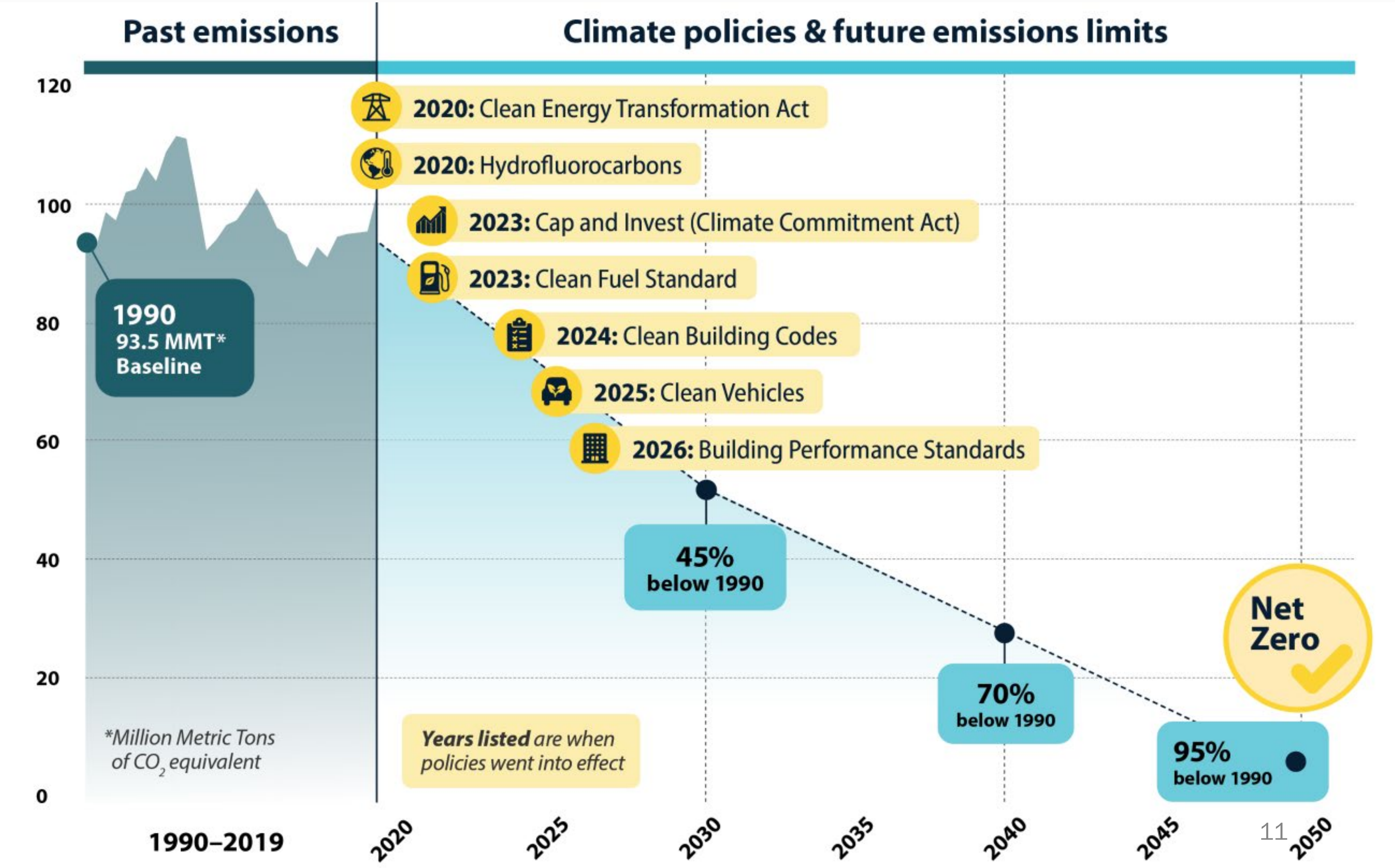
- Electric utility allocation is not based on an entity's total compliance obligation as a facility operator or electricity importer.
- Electricity produced by an in-state facility or imported by an electricity importer does not necessarily serve load of a single or any WA utility.
- Not all in-state 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.

Electric sector emissions and Washington context

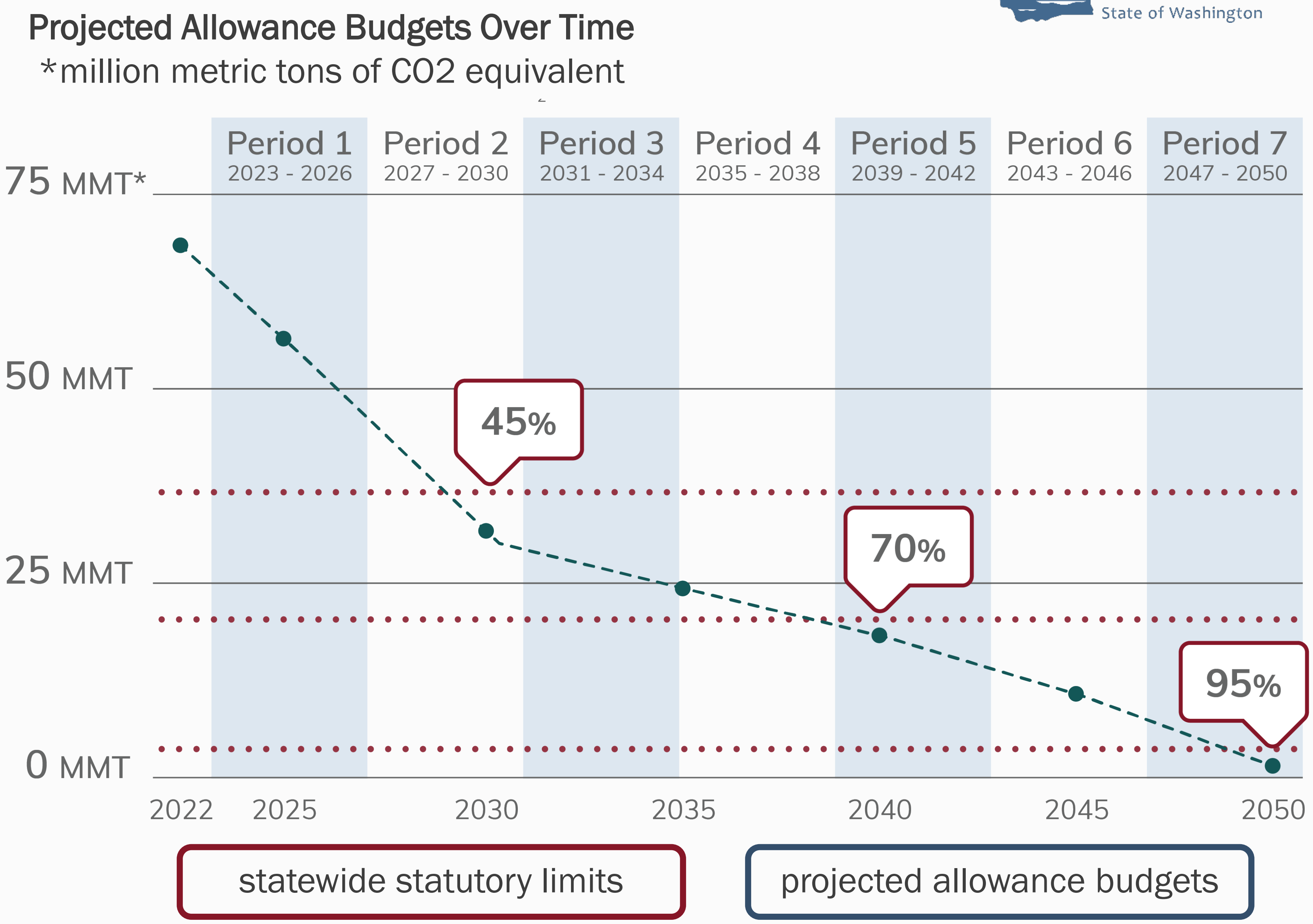
WA statutory greenhouse gas emissions limits

RCW 70A.45.050

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



Cap-and-Invest is designed to support substantial GHG reductions necessary to meet the State's short and long-term statutory emission limits.



CETA key policy for electric utility decarbonization

- 2026: Removal of coal from WA electricity portfolio
  - Coal must be removed from electric utility rates by December 31, 2025
  - Use of coal to meet load after Dec. 31, 2025 subject to fines
- 2030: 80% Clean Electricity – GHG Neutrality
  - Utilities must use qualifying renewable or non-emitting generation in an amount greater than or equal to 80% of retail electric load
  - Remaining 20% may be met with alternative compliance options, such as unbundled RECs
- 2045: 100% Clean Electricity
  - 100% of retail electric load must be met with qualifying energy resources.

RCW 19.405, UTC Rules WAC 480-100, Commerce Rules WAC 194-40-040

Washington 2023 power sector emissions

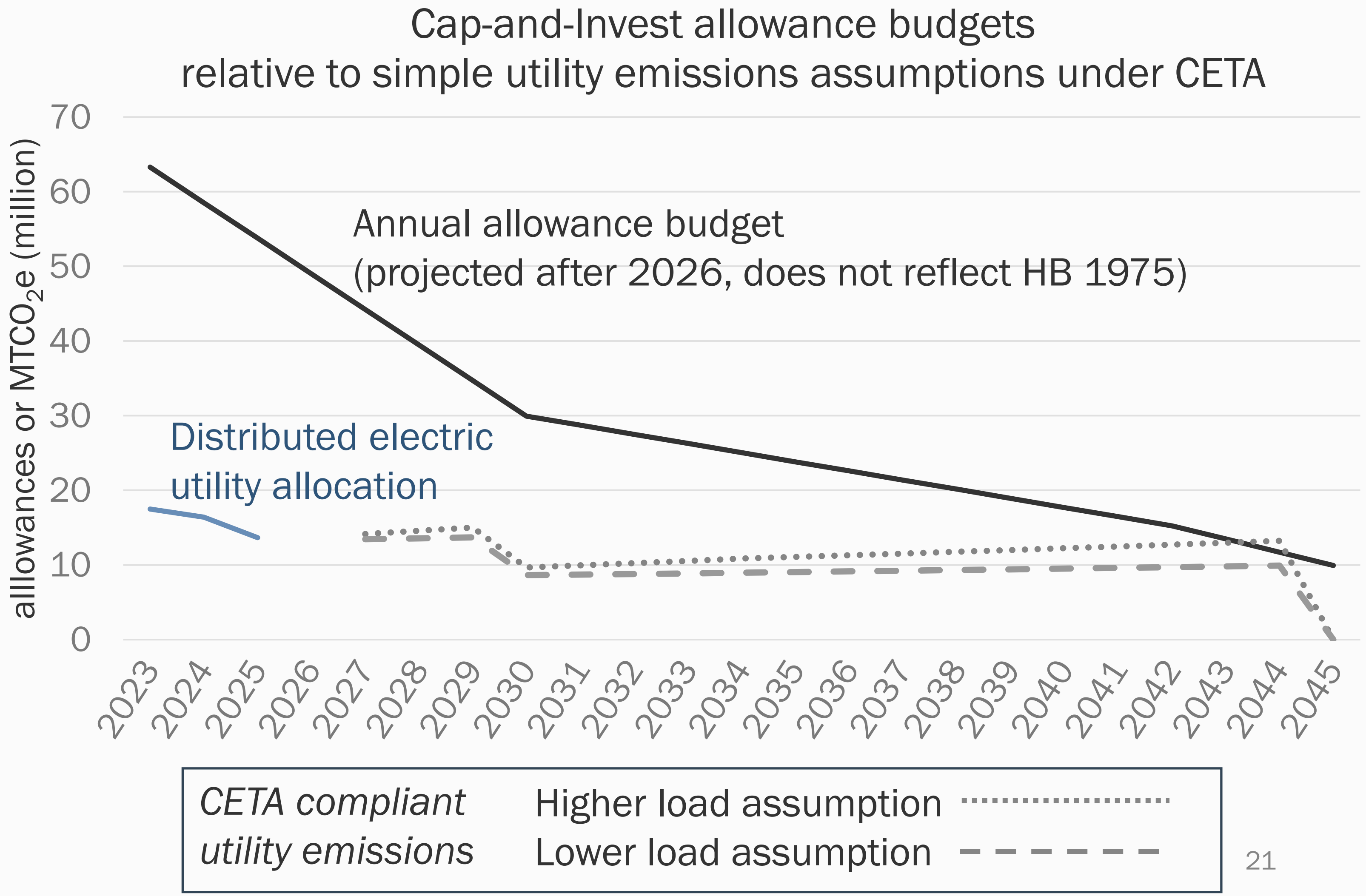
- Total in-state generation facilities covered emissions
  - 8.0 million $MTCO_2e$
- Total electricity imports covered emissions
  - 7.3 million $MTCO_2e$
- Total power sector covered emissions
  - 15.3 million $MTCO_2e$
  - May be associated with WA retail power provided by utilities, power directly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

Estimate of electric utility emissions: Simple CETA assumptions

Simplifying assumptions

- 2027-2029: Assume similar emissions intensity as 2025.
- 2030-2044: 80% zero emission, 20% natural gas

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.



Cap-and-Invest and CETA are complementary tools to achieve 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

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

Use of no-cost allowances

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 (or “consign”) at quarterly auctions, generating proceeds
- Hold for eligible uses

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

Transfer to a federal power marketing administration

- SB 6058: Provides electric utilities ability to transfer no-cost allowances to federal power marketers (RCW 70A.65.320)
- First draft of supportive rules in next draft language release
- Request review and comment from utilities

Consignment requirements: Background

- Consignment of no-cost allowances incents GHG reductions by supporting the carbon price in energy rates
- 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 amount of no-cost allowances in first compliance period (RCW 70A.65.120(3)(a))
- Statute directs Ecology to adopt rules on the amount of no-cost allowances that must be consigned during the second compliance period (RCW 70A.65.120(3)(b))

Consignment requirements: Requested feedback

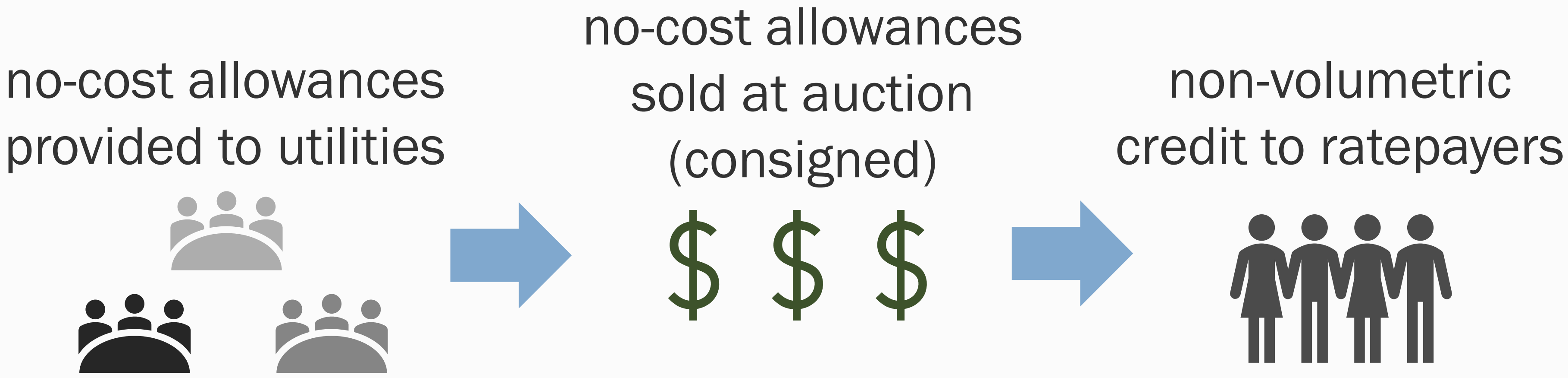
- Are there benefits or disadvantages of consignment of no-cost allowances?
  - Consider potential impacts on electricity markets, utilities, customers, the Cap-and-Invest Program, and statutory emission limits.
- Should utilities be required to consign a specified amount of no-cost allowances?
- Should any potential rules regarding consignment requirements be applied across all utilities?

Allocation statute and rules prioritize equity

RCW 70A.65.120(4)

“The benefits of all allowances consigned to auction… must be used by consumer-owned and investor-owned electric utilities for the benefit of ratepayers, with the first priority the mitigation of any rate impacts to low-income customers.”

Allocation for ratepayer protection: non-volumetric credits example



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

Use of proceeds from consigned allowances: Outreach and feedback

- Do utilities have questions on use of proceeds from consigned allowances consistent with RCW 70A.65.120(4)?
- Would guidance be valuable on this topic?
- Would information sharing of utility use of proceeds examples be helpful?
- Information on existing or potential use of proceeds would assist in scoping need for support.

Equity focus: Requested feedback

- How could no-cost allowances be used to maximize ratepayer benefit and support achievement of state emission limits?
- How could use of proceeds from consigned allowances be applied specifically to protect low-income ratepayers and overburdened communities?

Allocation timing

Annual allocation and compliance timing

- Oct. 1: Allocation schedule published
- Oct. 24: No-cost allowances distributed. Distributed allowances are the vintage of the upcoming calendar year (CY).
    - Example: Oct. 24, 2025: v2026 allowances distributed.
- Nov 1: Compliance event for previous calendar year
    - Example: Nov. 1, 2025: compliance event for CY 2024 covered emissions

Overview of v2026 allocation timing

- A utility may choose to submit a revised forecast for 2026 retail supply and demand to be considered for v2026 allocation.
- Submitted revised forecasts must meet criteria in WAC 173-446-230, including approval by the UTC or COU governing board by July 30, 2025.
- Ecology will publish an updated v2026 allocation schedule by Oct. 1, 2025.
- v2026 allocation distributed Oct. 24, 2025.

Estimated rulemaking and allocation timing

- **Summer-Fall 2025:** Allocation workshop(s) and guidance/rule development impacting 2nd compliance period
- **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 initial 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

Allocation timing: Interested party feedback

Ecology considering the following feedback from interested parties

- Revised forecast timing
  - Request July 30 deadline for revised forecast adoption (WAC 173-446-230(2)(j)) be delayed to August 31 to align with existing utility planning processes
- Updated v2026 publication
  - Request Ecology publish revised v2026 allocation before Oct. 1, 2025 to enable additional time for utility review before distribution Oct. 24
- Allocation to mitigate admin costs from 1st compliance period
  - Request Ecology provide v2026 or vintageless allowances so that allocation may be applied to 1st compliance period obligations in Nov. 2027

Feedback to April 2025 workshop

Revised forecast timing: Initial concept

Existing WAC 173-446-230(2)

- Schedule of allowances for a compliance period published by Oct. 1 in calendar year prior to the compliance period (WAC 173-446-230(2)(i))
- Schedule of allowances for compliance period may be updated annually by Oct. 1. Updated schedule may reflect revised forecasts of supply or demand if revised forecast adopted by UTC or COU governing board by July 31 (WAC 173-446-230(2)(j))

Initial concept

- Amend July 30 deadline in WAC 173-446-230(2) to Sep. 5 to better align with existing utility processes
- Maintain Oct. 1 publication date for allowance schedules

Updated v2026 publication: Initial thoughts

- Ecology may consider publishing a revised v2026 schedule before Oct. 1, 2025 to support utility review.
- Any revised v2026 schedule will not be published before Aug. 15, 2025.
- Ecology requests any utilities intending to submit a revised forecast for 2026 do so as soon as possible or notify Ecology of their expected submission date.
- Ecology will automatically update load-following COUs total retail load and BPA MWh with public data outputs from BPA's BP-26 Rate Case. No action required from load-following COUs unless BPA data is inconsistent with utility forecasts.[1]

[1]Slides 32-34 April 2025 workshop

Administrative allocation timing: Initial thoughts

- Ecology may consider mechanisms to enable allocation provided to mitigate 1st compliance period administrative costs to be applied to 1st compliance period obligations.
- Must be consistent with statute and programmatic limitations

Slides 41-44 April 2025 workshop

Administrative Allocation: Data

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.
- WAC 173-446-230(2)(h), adopted Oct. 2022, enables utilities to receive allowances associated with documented administrative costs.
- In late 2024, utilities generally indicated they could not meet documentation requirements in rule. Requested that Ecology develop a standardized calculated method to mitigate administrative costs.

Administrative allocation: Calculated method

- Initial concept: Develop a “calculated method” designed to mitigate administrative costs.
- Implementation:
  - Provide administrative allocation using calculated method for 1st compliance period and 2027 in October 2026 consistent with updated rule.
  - Administrative allocation provided annually from October 2026 onwards

Administrative allocation: Scope

WAC 173-446-230(2)(h): "…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 [Chapter 173-446 WAC] …"

Administrative allocation: Request for data

- "Calculated method" requires available data to appropriately design
- Request estimate and any supporting documentation for utility administrative costs from participation in the Cap-and-Invest Program (WAC 173-446):
  - Annual costs through 2026 (2022, 2023, 2024, 2025, 2026)
  - Annual ongoing costs (2027 forward)
  - If possible, estimate fraction of past annual costs associated with Cap-and-Invest Program initiation, such as establishing accounts, initial entity registration, etc.
- Utilities may separately note annual administrative costs associated with compliance with the GHG Reporting Rule (WAC 173-441)

Administrative allocation: Data submission

- Submit data to CCAutility@ecy.wa.gov
- Deadline for data submission August 22

Allocation Adjustments

Allocation adjustments: Background

- WAC 173-446-230(2)(g): Enables adjustments of future allowances to account for over or under-allocation in previous years.
- Oct. 2024: Announced adjustments to v2026-v2030 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 has not and will not remove allowances from a utility's account due to previous "overallocation".
- However, Ecology may adjust future allocation to account for differences between previously provided allocation and cumulative cost burden.

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

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- v2031 (updated).**

2023 allocation relative to power sector emissions

- 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

Modified timeline for revised balancing/EIM adjustment

- Adjustments accounting for difference from distributed v2023 and v2024 allocation, applied to v2026- v2031 (updated, previously v2026-v2030).
  - v2026 & v2027 adjustments each 10% of total adjustment
  - v2028-v2031 adjustments each 20% of total adjustment
- Example: If total adjustment BPA EF and balancing assumption adjustment 100 allowances, then adjustment of 10 applied to v2026 and v2027, and 20 applied annually to v2028-v2031
- Added additional year and lesser near-term adjustment

Allocation adjustments: Guidance considerations

- Improve certainty for market actors and allocated utilities
- Preserve decarbonization and emission reduction incentives
- Continue to reserve Ecology ability to adjust allocation to preserve link between allocation and cumulative utility cost burden
- Limit implementation burden

Allocation adjustments: Initial thoughts (April 2025)

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 [General support from interested parties]

- *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 [Mixed feedback]

- *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*

[1]Slides 38-40 April 2025 workshop

Allocation adjustments: Feedback (April 2025)

Ecology may consider adjustments related to

- *Misrepresentation of forecast load or retail supply that was not reflective of best estimates at the time*
  - Feedback: Mixed feedback
- *Significant divergence from forecast retail load due to high-density load, resulting in cumulative allocation significantly diverging from cost burden*
  - Feedback: General support for concept, but questions on how high-density load would be defined. Also concern that may not account for divergence due to general electrification trends.
- *Per request of utilities*
  - Feedback: General support

Allocation adjustments: “Misrepresentation”

- *Misrepresentation of forecast load or retail supply that was not reflective of best estimates at the time*
- Feedback:
  - Some utilities provided comment critical of the concept that a utility may purposely “game” or “misrepresent” forecasts
  - Some utilities indicated support for Ecology right to adjust in cases of misrepresentation
  - One utility requested Ecology limit “misrepresentation” to “intentionally false representation”

Allocation adjustments: Updated draft (July 2025)

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*
- *Divergence from forecast retail load of over 15%, resulting in cumulative allocation significantly diverging from cost burden*
- *Per request of utilities*

Allocation adjustments: Guidance implementation

- Formalize in written guidance before October 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.

2nd Compliance Period Forecasts and Approach

Overview of allocation method

- Allocation based on forecasts of potential cost burden associated with a utility serving its WA retail electric load
- Incorporates forecasts of each utility's retail electric load and resource supply used to meet retail load
- Forecasts should represent best estimate of retail electric load and most likely electricity resource mix used to supply retail electric load (WAC 173-446-230(2)(a)-(b))

Forecast details

- “Retail electric load” has same meaning as specified in RCW 19.405.020 (WAC 173-446-020)
  - MWh delivered to Washington retail electric customers
  - Does not include MWh from PURPA facilities
  - Does not include MWh of voluntary renewable energy purchases by a retail customer in which RECs are retired on behalf of the retail customer
- Forecasts should be consistent with a utility’s clean energy implementation plan (WAC 173-446-230(2)(c))

Estimated rulemaking and allocation timing (2)

- **Summer-Fall 2025:** Allocation workshop(s) and guidance/rule development impacting 2nd compliance period
- **By Oct. 1, 2026:** Amended rule adopted
  - Cap-and-Invest Program Updates and Linkage Rulemaking
  - Projected adoption summer 2026
- **By Oct. 1, 2026:** Intend to publish initial allocation schedule for 2nd compliance period
- **Oct. 24, 2026:** v2027 allocation distributed

2nd compliance period

- Emissions years 2027-2030 (WAC 173-446-030)
- Ecology may be required to revise the definition of “compliance period” to align with a linked jurisdiction. The length of the first compliance period will remain the same. (RCW 70A.65.010(20) and 65.070(1)(a)(ii))

Forecast for 2nd period schedule: Requested feedback

- Do entities foresee hurdles to having a 2nd compliance period forecast consistent with WAC 173-446-230(2) no later than September 1, 2026?
  - The existing annual July 30 deadline applies only to revised forecasts (WAC 173-446-230(2)(j)
  - Any forecast or data utilized must still be available for Ecology to review and utilize in the 2nd period allocation schedule ahead of distribution of v2027.
- Ecology may publish guidance to support consistency of utilized forecasts, including treatment of storage, demand response, and distributed resources and energy efficiency programs.
  - Are there other topics Ecology should address in guidance?
  - By when should guidance be provided to be useful in utility processes?
- Should Ecology pursue rule amendments for 2nd compliance period allocation to further support certainty and decarbonization incentives? For example, an approach that relies on a defined allocation schedule for a compliance period, with no or limited ability for revision or adjustment.

Summary of requested feedback

- Allowance transfer to a federal power marketing administration: slide 20
- Consignment: slide 22
- Use of allowances and proceeds: slide 25-26
- Revised forecast timing: slide 32
- Administrative costs data: slide 39
- Draft allocation adjustment guidance: slide 50
- 2nd compliance period approach: slide 57

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

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 August 8.
- Contact CCAutility@ecy.wa.gov regarding a utility's specific calculation of no-cost allowance allocation.
- Please submit requested data on administrative costs to CCAutility@ecy.wa.gov by August 22.

Thank you

ADA Accessibility

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