NW Energy Coalition

January 26, 2022

Via Electronic Filing

Washington Department of Ecology
Air Quality Program
P.O. Box 47600
Olympia, WA 98504-7600

RE: NW Energy Coalition's initial comments regarding the Climate Commitment Act Program Rule, Chapter 173-446 WAC.

Dear Cooper Garbe:

The NW Energy Coalition (NWEC or the Coalition) appreciates the opportunity to provide initial comments on the Climate Commitment Act Program Rule. The Coalition is a public interest nonprofit that focuses on clean energy issues in the Northwest. As an alliance of more than 100 organizations, the Coalition's work focuses on energy efficiency, renewable energy, fish and wildlife preservation and restoration in the Columbia basin, low-income and consumer protections, and informed public involvement in building a clean and affordable energy future.

The Climate Commitment Act (CCA) caps and reduces statewide greenhouse gas emissions consistent with the limits established in RCW 70A.45.020. While the CCA covers emissions from multiple sectors, our comments will primarily address components of the rule impacting electric and natural gas utilities as NWEC's work focuses heavily on the utility sector.

Our summary recommendations to Ecology in this matter are:

- Consider adopting multiple emissions factors for the generation of natural gas and coal to calculate the cost burden effect for electric utilities.
- Discuss the value of potentially incorporating energy efficiency into the cost burden effect calculation and ensure the rule does not create barriers to energy efficiency and electrification.
- Ensure the allocation baseline and the declining no cost allowance allocation schedule for natural gas utilities is set to maintain the integrity of the program.
- Develop additional rule language to provide guidance on the use of the value of no cost allowances for electric and natural gas utilities.

WAC 173-446-230 Distribution of allowances to electric utilities

NWEC agrees with Ecology's overall proposal to allocate allowances based on the cost burden effect but we offer additional recommendations to address the items outlined in our comments. Ecology is proposing to adopt a single emissions factor for natural gas-fired power plants and a single emissions factor for coal-fired power plants that are not considered coal transition power. Greenhouse gas emissions from natural gas- and coal-fired power plants can vary based on type and efficiency of the plant. For this reason, we encourage Ecology to consider adopting multiple emissions factors for natural gas and coal that will more accurately account for these emissions.

It is our understanding that energy efficiency used to be incorporated into the allowance allocation for electric utilities under the California Cap-and-Trade Program.[1] California eliminated energy efficiency allocation because energy efficiency requirements were the same for all electric distribution utilities and the program has been running for several years. Allocated allowances to recognize energy efficiency are not represented in the Ecology's draft rule language. With the declining costs of clean energy, the cost effectiveness of energy efficiency is challenged in an environment of low-cost renewable resources. We recommend Ecology discuss with stakeholders the value of potentially including acquired energy efficiency in determining the total amount of no cost allowances to distribute to electric utilities.

Ensuring Washington's cap and invest program aligns with investments in energy efficiency and electrification is vital to meeting our equity and climate goals. The 2021 State Energy Strategy's "deep decarbonization modeling analysis […] identified a combination of energy efficiency and electrification as the least-cost strategy to meet the state's greenhouse gas emissions limits for buildings."[2] Ecology should continue evaluating the methodology for allocating no cost allowances to electric utilities to make sure it does not create barriers to or disincentives for energy efficiency and electrification.

WAC 173-446-240 Distribution of allowances to natural gas utilities

NWEC has concerns about comments made during the January 11, 2022 stakeholder meeting, inquiring how Ecology plans to accommodate growth in the natural gas system. The integrity of the program relies on covered entities reducing their emissions proportionally to the declining cap. It's essential that the allocation baseline and the declining no cost allowance allocation schedule for natural gas utilities is set to maintain the integrity of the program.

Use of the value of no cost allowances

RCW 70A.65.120 and RCW 70A.65.130 outline requirements for electric and natural gas utilities to use the value of no cost allowances for the benefit of customers. These requirements differ for electric utilities and natural gas utilities and the draft rule reiterates the statute's directives. Absent from the rule is a process to provide additional clarity as well as monitor and enforce the statutory requirements.

For consumer-owned utilities (COU), we recommend Ecology issue guidance on the use of the value of no cost allowances consigned to auction beyond what is included in WAC 173-446-230(5) and establish a biennial reporting requirement on the use of the value of no cost allowances. The guidance to COUs on the use of the value of no cost allowances should include:

- A detailed list of mechanisms to provide benefits to ratepayers consistent with RCW 70A.65.120(4). Mechanisms to provide benefits to ratepayers include, but are not limited to,

[1] https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2016/capandtrade16/attachc.pdf
[2] https://www.commerce.wa.gov/wp-content/uploads/2021/01/WA_2021SES_Chapter-D-Buildings.pdf

weatherization, energy efficiency, electrification of heating in buildings, distributed energy resources, grid modernization technology, and transportation electrification.
- Clarification that the value of no cost allowances should be used in addition to existing legislative mandates and regulatory requirements.

COU reporting requirements should detail the use of the value of no cost allowances including program details, customers served, equity considerations, and other relevant information. Any reporting documents should be posted on Ecology's website to increase transparency.

For electric and natural gas investor-owned utilities, Ecology should defer to the Washington Utilities and Transportation Commission (UTC) to regulate the use of the value of no cost allowances. NWEC encourages the UTC to open a stakeholder process to discuss any necessary reporting on and the use of the value of no cost allowances consistent with RCW 70A.65.120 and RCW 70A.65.130. It would be valuable to undertake this process in advance of the start of the program on January 1, 2023.

Conclusion

NWEC appreciates Ecology's work to develop the CCA Program Rule and efforts to engage stakeholders. We want to reiterate that the use of the value of no cost allowances is lacking essential guidance and warrants significant additions to the draft rule language.

Thank you for your consideration of NW Energy Coalition's comments.

Sincerely,

Annabel Drayton
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NW Energy Coalition
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