

October 31, 2025

Submitted via Ecology's Online Public Comment Form

Washington Department of Ecology
Climate Pollution Reduction Program
P.O. Box 47600
Olympia, WA 98504-7600

Re: PacifiCorp's Informal Comments on Ecology's October 15, 2025, Cap-and-Invest HB 1975 Rulemaking Workshop

PacifiCorp appreciates the opportunity to comment on the Washington Department of Ecology's (Ecology) workshop regarding implementation of HB 1975. The limited informal comments provided below propose that Ecology pause the allowance price containment reserve (APCR) Tier 1 price increase for 2027 to take pressure off 2026 APCR prices, deposit 2027-2040 APCR allowances prior to the November 2027 APCR sale and sell allowances resulting from the modified emissions reduction target date in all 2026 auctions.

PacifiCorp recommends Ecology consider two key priorities as it implements HB 1975. First, affordability is a major concern around cap-and-invest programs both in and out of Washington. Cap-and-invest programs are designed with mechanisms to provide some price stability for covered entities, and the APCR is one of the best tools regulators have to control program costs. However, Washington's APCR budget is quickly running out of allowances and may not provide sufficient protection against high demand in the first compliance period.

Second, Ecology should avoid selling allowances at the price ceiling as much as possible. Sales at the price ceiling would breach the allowance cap, which could hinder linkage with other jurisdictions and give the appearance that the program is not meeting the state's need to decarbonize. Price ceiling sales also represent high costs for covered entities and their customers. Therefore, Ecology should use all available opportunities and tools to avoid price ceiling sales as much and as long as possible.

I. Ecology should amend its rules to pause the APCR Tier 1 price increase in 2027 to reflect the \$80 price ceiling required by HB 1975.

Ecology's current rules require that Tier 1 APCR prices increase each year by five percent plus the rate of inflation as measured by the consumer price index. WAC 173-446-370(4)(b)(iii). The Climate Commitment Act (CCA) directs Ecology to set by rule "an auction floor price and schedule for the floor price to increase by a predetermined amount every year." RCW 70A.65.150(1). However, this direction to establish a schedule for an annual price increase applies only to the quarterly auction floor price, and not the APCR prices. The same provision of the statute states that Ecology must "*also establish a reserve auction floor price to limit extraordinary prices and to determine when to offer allowances through the [APCR] auctions[.]*" (emphasis added) RCW 70A.65.150(1). The statutory text regarding the establishment of a reserve auction floor price does not contain the annual price increase requirement. Therefore, Ecology has discretion under the CCA to amend its rules to establish a pause in the increase in the APCR Tier 1 price for 2027.

Although the HB 1975 amendments to the CCA only expressly direct Ecology to adjust the Tier 2 APCR price to reflect the amended 2026 and 2027 price ceiling, there is nothing in HB 1975 that prevents Ecology from also adjusting its Tier 1 APCR price rule to implement the affordability and price containment policy objectives of HB 1975. In 2022, Ecology set the APCR Tier 1 price at approximately the midpoint between the floor and the ceiling, and the Tier 2 price at the midpoint between the Tier 1 price and the price ceiling. Since HB 1975 significantly reduced the ceiling price for 2026 and 2027 and the Tier 2 price must be adjusted accordingly, then, to be consistent with the intended design of the APCR tier prices, Ecology should also adjust the Tier 1 price. Without a commensurate pause of the scheduled increase to the Tier 1 APCR price, the 2027 APCR Tier 1 price could rise to approximately \$70, much closer to the \$80 price ceiling than the expected price floor.

A pause to the increase in the Tier 1 price for 2027 may alleviate pressure on the 2026 APCR auctions. As discussed in the workshop, the November 2027 APCR auction provides an opportunity for participants to buy a replenished stock of APCR allowances prior to the first compliance period retirement deadline because APCR allowances have no vintage. However, covered entities may be less interested in 2027 APCR auctions given the uncertainty around quantity available for auction and the expected elevated Tier 1 price nearing the \$80 ceiling. This, along with other factors, is likely driving current high demand for 2025 APCR auctions, as evidenced by the significant oversubscription of the October 2025 APCR auction and secondary market prices sitting well above the Tier 1 price for an extended period. This high demand is expected to continue in 2026. However, a pause on the 2027 Tier 1 price increase will ease the demand for 2026 Tier 1 allowances, which are quickly running out, and should shift some demand to 2027, thereby advancing affordability concerns.

Maintaining the same 2026 Tier 1 price through 2027 will add certainty for covered entities and ease compliance planning. Although the APCR is an essential price control tool, the mechanics of APCR auctions present difficulties for auction participants. If an APCR auction is oversubscribed, covered entities are only allocated a percentage of their bid. Expecting an APCR to be oversubscribed, a covered entity may overbid its need but is unlikely to correctly estimate the APCR oversubscription amount – resulting in an under or over-buy. If this strategy is employed in an undersubscribed auction, covered entities run the risk of hugely overbuying allowances. Alternatively, a covered entity could bid their need and be left short, increasing their reliance on the price ceiling auction. Given these features of APCR auctions, covered entities would have less incentive to aggressively participate or plan to participate in a 2027 APCR if the \$80 price ceiling units are only a few dollars away from a roughly \$70 Tier 1 price. A lower APCR price would provide more incentive for participants to utilize the 2027 APCR auction(s) for the first compliance period deadline, shifting pressure away from the 2025 and 2026 APCR auctions and disincentivizing price ceiling unit purchases.

II. Ecology should increase the supply of APCR allowances before the November 2027 compliance event to entice more participation in the 2027 APCR auction and curb potential price ceiling unit sales

Ecology should deposit 2027-2040 APCR allowances prior to the November 2027 APCR compliance event to give covered entities an opportunity to purchase additional APCR allowances and ease compliance planning. In conjunction with a fixed Tier 1 price for 2026 and 2027, supplying 2027 APCR allowances prior to the first compliance period deadline would take pressure off 2026 APCR auctions, giving participants an opportunity to avoid buying price ceiling units in 2026. In addition, this will provide more certainty that there will be robust APCR allowances available at a reasonable price in 2027 and alleviate some affordability concerns.

III. Excess prior year vintage allowances resulting from HB 1975 Section 5 (2) should be introduced in 2026 auctions to ease compliance planning.

Ecology should deposit allowances resulting from HB 1975 Section 5 (2) changes as quickly as possible, ideally across all 2026 auctions, so that covered entities may rely on them for first compliance period compliance planning. HB 1975 Section 5 (2) modified the state's emissions reduction target date, resulting in a more gradual required emissions reduction decline from 2023-2030 and beyond. This adjustment means Ecology undersold allowances from 2023-2025. To make up for this discrepancy and address the affordability concerns of the program, Ecology should introduce excess allowances in the first compliance period because that is when the undersell occurred. Ecology should seek to remedy this as quickly as possible by spreading these additional allowances equally across all 2026 auctions. Furthermore, Ecology should deposit a portion of these prior year allowances into the 2026 APCR allowance budget.

IV. Conclusion

PacifiCorp appreciates the opportunity to provide informal comments in response to Ecology's HB 1975 workshop. The legislature was clear in passing HB 1975 that CCA costs present significant challenges to covered entities and their customers. PacifiCorp encourages Ecology to recognize these costs and the affordability concerns in its implementation of HB 1975. To that end, Ecology should pause an increase in 2027 to the Tier 1 price, maintaining a constant price for 2026 and 2027; supply APCR allowances prior to the November 2027 compliance deadline; and sell allowances resulting from the modified emissions reduction target date across all 2026 auctions.

Sincerely,

/s/ Kieran O'Donnell

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