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Filed Via Ecology Website Public Comment Form

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Re: Cap-and-Invest Program Updates and Linkage Rulemaking – House Bill 1975 Implementation

Puget Sound Energy, Inc. (PSE) respectfully submits the following comments in response to the Washington State Department of Ecology (Ecology) request for written feedback on the implementation of House Bill 1975 (HB 1975).[1] Ecology hosted a workshop on October 15, 2025, regarding HB 1975 amendments that impact Ecology's Cap-and-Invest Program Updates and Linkage Rulemaking.[2]

PSE is Washington State's oldest and largest investor-owned energy utility, serving approximately 1.2 million electric and over 900,000 natural gas customers with safe and reliable energy services. PSE supported the passage of the Climate Commitment Act (CCA or Cap-and-Invest Program),[3] and has dedicated substantial resources and time to implement and comply with the Cap-and-Invest Program.

PSE appreciates Ecology's continued work addressing necessary updates to the Cap-and-Invest Program and providing clear guidance on program implementation and compliance requirements. PSE supports Ecology's efforts to streamline processes and consider guidance to improve certainty and limit administrative burden for compliance entities.

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1 House Bill 1975 - 2025 Washington State Legislature. Effective July 27, 2025. Adds new sections to Chapter 70A.65 RCW and amends RCW 70A.15.2200, 70A.65.150, 70A.65.070, 70A.65.310, and 70A.65.160.
2 Washington Department of Ecology presentation, "Cap-and-Invest Public Workshop: House Bill 1975" October 15, 2025, available at: https://ecology.wa.gov/getattachment/433dd4a9-1bf7-4bf8-92f5-15bfb5c380fc/Cap-and-Invest-Program-House-Bill-1975-Public-Workshop-10-15-25.pdf
3 Climate Commitment Act, 2021 Wash. Sess. Laws, ch. 316, Engrossed Second Substitute Senate Bill 5126 (codified as Chapter 70A.65 RCW).

The following comments respond to topics presented during the October 15 public workshop regarding HB 1975 implementation (per questions on slide 33).[4] These comments are intended to aid Ecology in drafting rule language and issuing guidance to improve implementation of the Cap-and-Invest Program.

I. Number of future vintage allowances placed in APCR: two percent, five percent, or other between two and five percent?

PSE recommends allocating future vintage allowances to the Allowance Price Containment Reserve (APCR) at 5% each year between 2030 and 2040, as allowed under HB 1975. This recommendation aligns with HB 1975's House Bill Analysis[5] to minimize allowance price volatility during auctions and to prevent extraordinary price fluctuations. Current market signals at both state-sanctioned auctions and secondary market offerings are continuing to indicate that the current supply of front-loaded allowances from budget years 2023-2030 in the APCR account is insufficient to stabilize prices and supply. Injecting the maximum allowable APCR supply in advance will help ease prices before linkage with the Western Climate Initiative (WCI) program occurs.

II. When APCR allowances are introduced:

- **Option A: Before compliance period 1 quadrennial compliance event**
- **Option B: After compliance period 1 quadrennial compliance event**

PSE recommends that Ecology pursue the introduction of frontloaded APCR allowances before the conclusion of compliance period one (CP 1), as presented in the slide deck as Option A.[6] In pursing Option A, it is essential for Ecology to consider this option for Covered Entities while ensuring it does not negatively impact Washington’s ability to link with the WCI carbon program. Implementing Option A presents significant cost savings to Washington utility ratepayers, who directly benefit from lower compliance costs. Furthermore, this approach enhances the likelihood of maintaining compliance with the historic program cap. Overall, this contributes to a more stable program framework to help Covered Entities comply with the aggressive carbon reduction cap set to reach Washington’s ambitious greenhouse gas emissions reduction goals.

III. Emissions limits (December 31 limits): When / how should prior year vintage allowances be introduced?

Given recent changes to emission limits aligned with cap deadlines, PSE recommends that such allowances be made available during CP 1. Specifically, PSE recommends inclusion in a CP 1 auction or, alternatively, in the allocation in the second compliance period (CP 2) auction with a targeted distribution before the compliance deadline of CP 1. If allocated to a CP 2 auction, then PSE also requests Ecology provide a written statement either in the auction notice or via market

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4 *See supra note 2.*

5 *See HB 1975 Final Bill Report*, at p. 4, available here: https://lawfilesext.leg.wa.gov/biennium/2025-26/Pdf/Bill%20Reports/House/1975-S2%20HBR%20FBR%2025.pdf?q=20251028153748

6 *See supra note 2,* slides 15-16.

notice email that these allowances can be used to cover CP 1 compliance obligations. Should these approaches be constrained by regulatory or Ecology rulemaking or auction scheduling, PSE urges that these additional allowances be made accessible in the October APCR Compliance Auction prior to the CP 1 compliance deadline of November 1, 2027.

IV. Tier 2 price revision.

No comments.

Thank you for the opportunity to provide comments to inform rule changes for the Cap-and-Invest Program related to the implementation of HB 1975. PSE appreciates and looks forward to continued engagement with Ecology and other interested parties on these and other matters in this Cap-and-Invest Program Updates and Linkage rulemaking.

Please contact Kelima Yakupova, State & Regional Policy Consultant, PSE State Regulatory Policy, at (425) 462-3588 or kelima.yakupova@pse.com, for additional information about this filing. If you have any other questions, please contact me at (425) 462-3051.

Sincerely,

/s/ Wendy Gerlitz

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