SNOHOMISH COUNTY
PUD
PUBLIC UTILITY DISTRICT NO. 1
Energizing Life in Our Communities

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Submitted via email and web portal

Washington Department of Ecology
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Re: July 22nd Electric Utility Allocation public workshop topics

To the Cap-and-Invest Policy Section,

The Public Utility District #1 of Snohomish County (Snohomish) appreciates the opportunity to provide comments regarding the Department of Ecology's (Ecology's) allocation process and methodology for No Cost Allowances within the Climate Commitment Act (CCA). Snohomish is a strong supporter of the CCA, having supported its passage in the legislature and continuing to work with Ecology to ensure the program achieves its policy and statutory goals of reducing Greenhouse Gas (GHG) emissions.

Snohomish thanks Ecology for continuing its work to establish a durable process upon which utilities can rely to properly plan and forecast each utility's compliance needs. These comments intend to briefly address Ecology's planned allocation of allowances for future periods and will then respond to the questions asked by Ecology in its July 22 Allocation public workshop.

Snohomish proposes a mutually beneficial solution for maintaining program integrity while protecting WA ratepayers from unexpected compliance costs

During the July 22 workshop, Ecology referenced the number of allowances allocated to utilities in excess of the utility sectors calculated 2023 compliance obligations. Of this excess, approximately 7 million allowances were attributable to Ecology's previous cost burden methodology which included an estimate of unspecified energy related to the Energy Imbalance Market (EIM). Ecology has both revised this methodology on a forward-looking basis and has incorporated a reduction in future allocations for utilities to recoup the previously allocated allowances.

Ecology has recognized that this issue may be detrimental to utility compliance efforts and in the July 22 workshop stated that they have extended their recovery period by a year. Previously, the excess allowances would have been collected via reductions between 2026-2030; the new proposal establishes a collection period of 2026-2031. This helps spread the reduction across another year.

Snohomish appreciates Ecology's continued work trying to help utilities mitigate effects of the allocation reduction. The extra year will help lessen the impact in a given compliance period but does not ultimately change the circumstances of any utility that committed the excess allowances to consignment while relying on the best available information. These utilities, such as Snohomish, will still face exposure to compliance risk in future periods.

While Snohomish has previously recommended that Ecology not make an adjustment for the EIM methodological change, Snohomish also recognizes Ecology's obligation to maintain program integrity for all market participants. Snohomish instead now recommends a compromise solution that helps utilities minimize the impacts to their ratepayers while allowing Ecology to maintain program integrity. This compromise would see Ecology adjust their reduction of future allocations; Ecology is currently collecting 100% of the calculated excess and Snohomish recommends Ecology collect 50%. For example, for 2023 allocated allowances, Ecology calculates ~1.1M allowances distributed that were associated with the EIM adjustment – which Ecology currently plans to fully recover. Snohomish's recommendation would modify that recovery to ~650,000 allowances.

This solution would help Ecology continue to protect program integrity by collecting a portion of excess allowances while allowing utilities to protect their ratepayers from cost impacts incurred through no fault of the utility. This would also signal to utilities that Ecology will work to ensure certainty in allocated allowances and that the incentive of consignment toward decarbonization does not carry risk of future adjustments that threaten compliance efforts.

Ecology's premise that the Clean Energy Transformation Act may not achieve carbon emission goals needs further analysis

As part of the presentation on July 22nd, Ecology presented data indicating that the Clean Energy Transition Act (CETA) may not result in a reduction of utility emissions due to the 20% alternate compliance allowed between 2030 and 2045. This conclusion is drawn primarily from the assumption that utilities would use natural gas to satisfy 20% of their load obligations until 2045 while leveraging the alternative compliance options available. Ecology does note that this assumption is not likely to reflect reality but is rather a bookend starting point for discussion about the impact that CETA may have on carbon emissions; a "worst-case scenario."

Snohomish agrees that these assumptions do not necessarily reflect reality. In practice, most utilities that are full-requirements Bonneville Power Administration customers are already 90+% clean through BPA; this accounts for a significant portion of WA load. Further, as 2045 approaches, utilities will need to ramp into resource procurement that provides energy and environmental attributes together. Utilities will not simply be able to jump from 80% clean to 100% clean overnight from Dec 31, 2044 to Jan 1, 2045; it will require long lead times to contract, construct, and operate clean energy resources and appropriate transmission to support the 100% clean grid. These lead times will create a glidepath toward 100% in the years leading up to 2045.

The statement that CETA may not "drive proportionate emission reductions consistent with declining economy-wide … allowance budgets or state emission limits" is worrisome as it sends the wrong policy message and is based on simplifying assumptions that overstate the actual emissions of the electric sector. This could lead policymakers to wrongly assume that utilities are not achieving carbon emission levels consistent with declining emission caps.

Snohomish recommends that Ecology study further scenarios that better reflect the actual operations of utilities. Such scenarios could leverage reporting already being done by utilities through Integrated Resource Plans and Clean Energy Implementation Plans. Snohomish believes that the result of such studies will be consistent with the concept that CETA is driving carbon emissions even now and that the electric sector is an active participant in the state-wide decarbonization effort.

Feedback on Specific Questions

Consignment Requirements – Benefits and disadvantages of consignment, requirement to consign, guidance on use of proceeds?

Snohomish believes consignment is an important mechanism to incentivize carbon reduction and that it should not be mandated for consumer-owned utilities

The mechanism for utilities to consign surplus allowances to auction is important not only to incentivize carbon reduction beyond a utility's cost burden but as a source of potential rate relief for customers. The revenues from consignment provide customers, particularly by prioritizing low-income customers with relief from potential rate pressures associated with decarbonization efforts.

Consumer-owned utilities (COUs) should not, however, be required to consign a specified amount of no-cost allowances. Assuming COUs forecast their cost burden accurately, the number of allowances allocated protect utilities against being double-charged for carbon reduction efforts. If COUs were required to consign allowances, this would remove allowances otherwise needed for compliance, requiring utilities to revisit the market to acquire offsetting allowances. Any kind of blanket requirement will restrict individual utilities from decarbonizing at their most cost-effective pace between 2030 and 2044. A push to incentivize COUs to decarbonize through the CCA would create an imbalance between CETA and CCA with likely unintended costs to WA customers for no additional decarbonization benefit.

Snohomish does not have any questions regarding use of proceeds from consigned allowances

Snohomish believes that the statute provides sufficient guidance to develop a methodology for demonstrating compliance with the requirements around consignment revenues. While additional information sharing between utilities could be insightful, we do not believe that Ecology needs to issue specific guidance on this issue.

Equity focus – How are no-cost allowances or consignment revenues able to maximize ratepayer benefit?

No-cost allowances provide their maximum benefit through the mitigation of CCA costs

The primary use of no-cost allowances and the maximum benefit they provide is to protect utilities from CCA costs while allowing investment in achieving clean energy goals under CETA. Utilities must wisely invest their ratepayer dollars in projects, resources, and initiatives that will produce compliance benefits and move their portfolio closer to 100% clean. No-cost allowances allow utilities to achieve those investments in their CETA compliance requirements, further utility and state decarbonization goals.

Feedback on Ecology allocation publication schedule and timing

Snohomish supports Ecology's initial concept regarding forecast submission timing and encourages Ecology to publish a revised v2026 schedule before Oct 1, 2025

As Ecology develops its allocation schedules, Snohomish recommends that the public be involved and informed of potential allocations prior to their official and final publication on Oct 1, 2025. This involvement should include review of the proposed allocation schedule to help both utilities and Ecology identify any areas of concern or clarification. This will help market participants feel more certain that allocations are accurate and reliable through increased transparency in their development.

Feedback on Allocation Adjustment guidance

Ecology's proposed guidance regarding allocation adjustments should have a higher threshold for triggering review

Snohomish broadly supports Ecology's initial guidance related to when Ecology may or may not seek adjustments to allocations. Maintaining incentives for carbon reduction efforts and optimizing market behavior to minimize imported emissions are important and impactful. Snohomish believes that Ecology should raise the threshold for triggering a potential review from a 15% divergence from retail to a higher factor, between 25-40% of retail load. Snohomish understands that Ecology's intent is to only trigger a review when a utility has a significant divergence or utility event. Loss of a large industrial customer, gaining new service territory, or a new large single customer could all be situations that could be considered "significant" but should be balanced by a threshold that reflects a true divergence from normal utility operations.

When pursuing rule amendments for the second compliance period, Ecology should maintain utility flexibility to adjust its own forecasts

As Ecology considers potential rule amendments related to allocations during the second compliance period, Snohomish encourages Ecology to ensure that utilities continue to have a method to revise commission or board approved forecasts as needed. Washington utilities are facing transformational change in the electric industry and forecasts of supply and demand can be significantly affected even in the short term by a variety of factors. Leaving discretion available to utilities to adjust forecasts for these changes helps utilities protect their ratepayers from costs that would otherwise be covered by an allocation of no cost allowances.

Conclusion

Snohomish thanks Ecology staff for their continued communication with stakeholders and transparency on these topics. The level of engagement is valued by Snohomish and we appreciate the continued dialogue that Ecology hopes to have in its development timeline.

If you have any questions about our comments, please do not hesitate to reach out.

Sincerely,

Kim Johnston
Chief Government Relations and Strategy Officer