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Submitted via E-mail

Camille Sultana, Senior Environmental Planner
Department of Ecology
Climate Pollution Reduction Program
PO Box 47600, Olympia, WA 98504-7600

RE: Administrative Cost Allowances Under the Cap-and-Invest Program

On October 16, 2024, the Washington Department of Ecology (Ecology) hosted a public meeting on no-cost allowance allocation for electric utilities under the Cap-and-Invest Program. Among the topics for discussion during the October 16th public meeting was the implementation of no-cost allowance allocation for administrative costs as provided under the Climate Commitment Act (CCA) Program Rule, WAC 173-446-230(2)(h). The following comments are submitted by the Public Generating Pool (PGP), a trade association representing eight consumer-owned utilities in Washington and one in Oregon that own and operate their own generating resources. PGP appreciates the opportunity to offer feedback on the implementation of no-cost allowance allocation for administrative costs under the Cap-and-Invest Program.

Addressing Past Program Years & Outstanding PGP Questions

RCW 70A.65.120(1) of the CCA allows all electric utilities subject to the requirements of the Washington Clean Energy Transformation Act (CETA) to be eligible for allowance allocation at no cost in order to mitigate the cost burden of the Cap-and-Invest Program on electricity customers. "Cost burden" is further defined in the CCA as including administrative costs from a utility's participation in the program. Ecology recognizes this provision of no-cost allowances for the administrative costs of the Cap-and-Invest Program in WAC 172-446-230(2)(h)[1]:

> "(h) An additional number of allowances will be allocated to account for the administrative costs of the program. 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 this chapter and Chapter 173-441 WAC. Program costs, such as those related to energy efficiency or renewable energy programs, are not qualifying administrative costs, including any administrative requirements of those programs. The number of allowances allocated for this purpose will be determined by ecology based on documented and verified administrative costs derived from audited financial statements from utilities. The mean allowance auction price from the time period for which administrative costs are

[1] WAC as proposed to be amended by Ecology's draft Linkage rules.

documented will be used to translate administrative costs into the appropriate number of allowances. To ensure consistency, ecology will consult with the utilities and transportation commission in its calculations for the administrative costs for investor-owned utilities."

To date no allowances have been allocated to electric utilities for administrative costs, and no guidance has been issued by Ecology to help electric utilities track or substantiate eligible expenses under the general expense categories outlined in the WAC. Given this lack of guidance from Ecology, the quality and quantity of documentation of administrative costs incurred by electric utilities during cap-and-invest program years 2023 and 2024 will vary widely. **For this reason, PGP strongly recommends that Ecology consider a standard formula approach for these past program years whereby Ecology allocates to each electric utility a flat or uniform base number of allowances, multiplied by a factor based on utility size, and provide additional guidance and a standardized methodology for addressing administrative costs going forward, beginning program year 2025.**

PGP would also like to understand from Ecology whether administrative costs related to greenhouse gas (GHG) tracking, reporting, and third-party verification under Chapter 173-441 WAC are eligible for reimbursement through the allocation of no-cost allowances beginning with emissions year 2022 (reported in 2023) through emissions year 2025 (reported in 2026). Previous informal communications from Ecology staff to PGP and our member utilities indicated that administrative expenses related to GHG reporting and third-party verification under Chapter 173-441 WAC were *not* eligible for reimbursement through no-cost allowance allocation under WAC 173-446-230(2)(h). Because of this previous information, many utilities may not have been tracking those expenses for emissions years 2022-2024. However, as noted above, Ecology's July 1, 2024, draft rules under its Linkage Rulemaking—slated for final adoption by Fall 2025—would include explicit reference to the administrative costs of the reporting and verification requirements of Chapter 173-441 WAC going forward. **PGP requests that Ecology clarify the treatment of administrative costs incurred under Chapter 173-441 WAC for previous emissions years and emissions year 2025, pending final adoption of the Linkage rules.**

Lastly, PGP requests clarification on the following questions:

- When will no-cost allowances allocated for administrative costs be disbursed to utilities each year?
    - If disbursed by October 1st of each year, will no-cost allowances allocated for administrative costs be disaggregated from direct & indirect program cost allowances in the allocation schedule?
- What vintage will no-cost allowances allocated for administrative costs be?
    - For costs incurred 2022-2025?
    - For costs incurred going forward?
- How does Ecology intend to "convert" utility administrative costs (measured in USD) to no-cost allowances (measured in units of MT CO_2e)? I.e., will the conversion from dollars to allowances be based on:
    - The settlement price from the most recent quarterly auction?
    - The average auction settlement price for the previous program year?
    - Some other approach?

<u>Responses to Ecology Questions</u>

PGP would like to offer the following responses to the questions posed by Ecology during the October 16th public meeting on electric utility no-cost allowance allocation:

1. **Can administrative costs of the program be demonstrated from audited financial statements from utilities?**

   PGP would like to request clarification on Ecology's standard for what constitutes "audited financial statements." Administrative costs related to the Cap-and-Invest Program and associated GHG reporting and third-party verification requirements are rolled into a consumer-owned utility's global "audited financial statements," but are not isolated by line item within those statements. For example, a consumer-owned utility's annual audited financial report will not typically include breakouts for costs associated with state policy compliance from other, whole-utility operating costs.

2. **What documentation do utilities have, consistent with program rule, that indicate administrative program costs?**

   As commented above, given the lack of guidance from Ecology to date, the quality and quantity of documentation of administrative costs incurred by electric utilities during cap-and-invest program years 2023 and 2024, as well as GHG emission years 2022-2024, will vary widely. Vendor costs, either one-time or recurring, may be the easiest to account for retroactively based on paid invoices. For personnel costs, some utilities may have timecard data, while others may have estimates based on analysis of staff calendars, job descriptions, managerial documentation, or internal workload planning processes. Given this variation, PGP believes the most equitable approach for addressing past years' administrative costs would be to adopt a formula approach whereby Ecology allocates to each electric utility a flat or uniform base number of allowances, multiplied by a factor based on utility size.

   With respect to administrative costs incurred beginning program year 2025, PGP recommends that Ecology consider giving electric utilities the flexibility to choose between two options for reimbursement: (1) A more "itemized" option that could include the submission of supporting documentation, such as timecard data for personnel costs and paid invoices for vendor costs; or (2) a "standard" formula approach similar to that recommended above for past program years. PGP believes such flexibility will be necessary given the heterogeneity of utility practice and administrative capacity. For example, while several PGP members have adopted internal mechanisms for tracking staff hours spent on CCA compliance and GHG reporting activities based on current managerial practices, others do not currently have any internal practices for tracking staff time spent on specific programs. For smaller electric utilities in particular, requiring the wholesale adoption of new internal systems for the sole purpose of tracking CCA/GHG administrative costs would itself constitute an administrative burden that is unlikely to be completely offset by no-cost allowance allocation.

   For utilities that choose the "itemized" option, PGP requests that Ecology confirm that 100% of identified, eligible administrative costs would be "reimbursed" through the allocation of no-cost allowances. These costs for reimbursement could be substantiated by certain documentation at the time of submission to Ecology. Other submittals or alternative documentation would need to be handled on a case-by-case basis.

3. How should utilities submit requests for recovery of administrative costs? What supporting documentation should be submitted?

Ecology should develop a standard cover sheet or form for utilities to submit requests for recovery of administrative costs using either the "itemized" or "standard" options laid out above. Supporting documentation to be filed with the cover sheet or form for the "itemized" option could include timecard data for personnel costs and paid invoices for vendor costs. Ecology could then follow up the utility's submission with requests for additional documentation if necessary.

4. How can Ecology promote consistent and predictable treatment across utilities in implementing WAC 173-446-230(2)(h)?

PGP would like to see Ecology promote consistent and predictable treatment across utilities in implementing WAC 173-446-230(2)(h) by issuing a guidance document that helps electric utilities that choose the "itemized" reimbursement option track eligible expenses under the general expense categories outlined in the WAC. At this time, PGP's understanding of eligible expenses under the general expense categories includes:

- Personnel Costs: Staff time including taxes, benefits, insurance, etc. Work that should qualify includes, but is not limited to:
  - Developing internal tools and performing data analysis for GHG reporting purposes;
  - Filling out and completing the Washington Department of Ecology Reporting Tool for Electric Power Entities to Report Greenhouse Gas Emissions (EPE Reporting Tool);
  - Complying with third-party verification and other auditing processes;
  - Contract management activities, i.e. managing requests for proposals (RFPs) and contracting for third-party vendors of GHG reporting- and Cap-and-Invest Program-related goods and services;
  - Developing and implementing the utility's allowance management strategy;
  - Registration for and management of Compliance Instrument Tracking System Service (CITSS) accounts and allowance positions;
  - Participating in allowance auctions;
  - Researching and tracking allowance prices from Ecology auctions and the secondary market.
- Vendor Costs:
  - Retaining a third-party verifier;
  - Data analysis for/hiring consultants to complete EPE Reporting Tool;
  - Software platforms for e-tag data management (i.e., OATI) and other software costs;
  - Consultant costs for researching and tracking allowance prices from Ecology auctions and the secondary market;
  - Document notarization costs.

<u>Conclusion</u>

In summary, PGP:

- Strongly recommends that Ecology consider a standard formula approach for past program years whereby Ecology allocates to each electric utility a flat or uniform base number of allowances times a multiplier based on the utility's size;
- Recommends that Ecology give utilities the flexibility to choose between an "itemized" or "standard" option for administrative cost reimbursement beginning with program year 2025;
- Requests that Ecology clarify the treatment of administrative costs incurred under Chapter 173-441 WAC for emissions years 2022-2024 and emissions year 2025, pending final adoption of the Linkage rules;
- Requests that Ecology clarify the timing and vintage of no-cost allowance allocation for administrative costs;
- Requests that Ecology clarify how the agency intends to convert administrative costs to no-cost allowances; and
- Recommends that Ecology promote consistent and predictable treatment across utilities in implementing WAC 173-446-230(2)(h) by issuing a guidance document that helps electric utilities that choose an "itemized" reimbursement option track eligible expenses under the general expense categories outlined in the WAC.

PGP looks forward to working with Ecology and other utility stakeholders to begin implementation of this important provision of CCA policy.

Sincerely,

/s/ Mary Wiencke
Mary Wiencke
Executive Director
Public Generating Pool