May 2nd, 2025

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

Re: April 17, 2025, Cap-and-Invest: No-cost allocation for electric utilities Workshop

The Energy Authority (TEA) is a public power-owned, nonprofit corporation that provides portfolio management services to public power utilities across the United States. TEA partners with over 70 public power clients, managing approximately 30 GW of peak load and 25 GW of generation across all centralized and bilateral wholesale energy markets in the continental United States. TEA provides carbon management and compliance reporting services to 15 Washington utilities with a combined total retail load of nearly 20,000 GWhs. TEA appreciates the opportunity to provide comments to the Department of Ecology on no-cost allocations to Electric Utilities.

2026 Allocations

TEA appreciates Ecology's clarification that allowances distributed to BPA preference customers will be updated in 2026 and every year thereafter to reflect BPA's actual ACS emissions factor for that time period. TEA echoes comments made in the April 17th meeting and requests that Ecology consider moving the July 30th forecast board approval deadline to August 31st in order to align with other WA compliance deadlines such as for Integrated Resource Plans and Clean Energy Implementation Plans.

Allowance Adjustments

TEA appreciates Ecology's confirmation that allowances will not ever be reduced as a result of optimization (aka, if you avoid emissions by avoiding electricity imports, you will not receive a lower allocation). This is a key aspect of the program, and it is encouraging to see Ecology acknowledge this.

Ecology stated in the April 17th meeting that they may adjust allocations in case of "purposeful gaming of forecasts". TEA would like to point out there are already processes in place to prevent gaming including that the forecasts must be board approved and consistent with IRP/CEIP load forecasts. Load forecast error is an inevitable aspect of utility planning given unpredictability in weather and loss of existing or prospective large loads. However, it is a utility's primary responsibility to plan for these loads to ensure sufficient resource supply for load service, and it is important for Ecology to acknowledge that while a forecast load may not materialize, this does not necessarily constitute forecast "gaming".

TEA is concerned by the lack of consideration of stakeholder feedback in the allowance allocation processes. In the initial EPE allowance distributions, Ecology erroneously provided utilities with allowances for emissions related to the Energy Imbalance Market. This was Ecology's mistake, yet utilities have faced the consequences of this mistake by receiving lower allocations for the next 5 years. Notably, many utilities consigned surplus allowances to auction in 2024 prior to the notice of the allowance adjustment. Prices were relatively low in 2024 due to the program being threatened by I-2117 but have since risen substantially. Now, given the allowance adjustment, many utilities will be forced into buying allowances commensurate with the amount removed from future allocations at a higher price than the allowances that were consigned. Utilities should not be punished for Ecology's error, and instead of adjusting future allocations based on the erroneously distributed EIM allowances, Ecology should acknowledge their mistake and correct it going forward.

Ecology acknowledged in the April 17th meeting that allowance allocations are intended to account for both direct and indirect costs associated with the Cap-and-Invest program. Prices at the Mid-Columbia Trading Hub (MIDC) have been inflated over the past couple of years relative to history in part due to WA's Cap-and-Invest program. As a result, many utilities have had to issue rate increases. This is a further indication that Ecology should not be seeking to make downward backward-looking allocation adjustments. The actual cost burden of the Cap-and-Invest program is extremely difficult to quantify but is generally higher than Ecology's calculated cost burden given indirect costs.

TEA is uncertain if Ecology may be stretching the bounds of what allowance adjustments are allowed by rule. WAC-173-446-230 states:

> *"(g) The initial allocation of allowances will be adjusted as necessary to account for any differential between the applicable reported greenhouse gas emissions for the prior years for which reporting data are available and verified in accordance with chapter 173-441 WAC and the number of allowances that were allocated for the prior year through this process."*

This language indicates that the differential will only consider the allocation for the "prior year". Thus, it may not be appropriate for Ecology to make adjustments to allocations based on what happened multiple years in the past. This makes sense because utilities make planning decisions based on allocations, and there needs to be certainty at some point that allocations will not be adjusted any further. TEA is encouraged by Ecology's desire to employ a "close the books" approach. However, it is not clear to TEA how this will be implemented. TEA would appreciate clarification from Ecology that this "close the books" approach is consistent with WAC-173-446-230, and Ecology would not make adjustments to allocations based what occurred multiple years prior (e.g. 2026 allocations would not be adjusted based on what happened in 2023).

<u>Administrative Allowances</u>

TEA appreciates Ecology's acknowledgement that for many utilities, it would be hard/impossible to provide documents that could be audited in financial statements to account for the administrative burden of the program. TEA encourages Ecology to have a close and open dialogue with stakeholders in order to develop a cohesive methodology for calculating the administrative cost burden. While some of the administrative costs related to Cap-and-Invest may be easy to calculate such as purchase of new software or consultants, others may be more difficult to quantify and require utility-specific suggestions.

TEA also recommends that Ecology ensure that the allowance settlement price uses the same vintage as the allowance being distributed for the admin cost burden. For example, if Ecology plans to distribute vintage 2027 allowances, they should use recent v2027 auction settlement prices to calculate the no cost allocation volume. Given there will be limited liquidity on vintage 2027 allowances in Oct 2026 (when allowances will be distributed), it would be prudent for Ecology to consider distributing administrative allowances in a more liquid vintage. For example, in October 2026, vintage 2026 allowances will be very liquid, so it would make sense to distribute v2026 no-cost allocations for administrative costs.

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