Kelima Yakupova

Attached are Comments by Puget Sound Energy. For some reason the comment form didn't have "organization" in the drop down menu.

PSE PUGET SOUND ENERGY

Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
pse.com

December 5, 2025

Filed Via Ecology Website Public Comment Form

Andrew Hayes, Cap-and-Invest Policy Section Manager
Camille Sultana, Cap-and-Invest Environmental Planner
Department of Ecology
Air Quality Program
P.O. Box 47600
Olympia, WA 98504-7600

Re: Cap-and-Invest Program Updates and Linkage Rulemaking – No-cost allowance allocation for electric utilities

Puget Sound Energy, Inc. (PSE) respectfully submits the following comments in response to the Washington State Department of Ecology (Ecology) workshop hosted November 13, 2025, on no-cost allowance allocation for electric utilities in relation to Ecology's Cap-and-Invest Program Updates and Linkage Rulemaking.[1] PSE joined peer utilities in submitting joint comments filed concurrently separately. These are additional comments from PSE on matters not covered in the joint comments.

Background

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),[2] and has dedicated substantial resources and time to engage with, implement and ultimately comply with the Cap-and-Invest Program.

Comments

Potential rule amendments for 2nd compliance period related to defined allocation schedule to enhance certainty and decarbonization incentives

In its comments submitted to Ecology on August 15, 2025,[3] PSE recommended that Ecology consider rule amendments for the second compliance period allocation, specifically exploring

---

[1] Washington Department of Ecology presentation, "Cap-and-Invest: No-cost allowance allocation for electric utilities" November 13, 2025, available at: https://ecology.wa.gov/getattachment/f820ef6f-eabd-4ca4-b58a-d8ff11488840/ElecAllocation_2511.pdf

[2] Climate Commitment Act, 2021 Wash. Sess. Laws, ch. 316, Engrossed Second Substitute Senate Bill 5126 (codified as Chapter 70A.65 RCW).

[3] Comments of Puget Sound Energy to Department of Ecology, submitted on August 15, 2025, available here: https://ecology.commentinput.com/comment/extra?id=x2VP3cC5uQ

alternative approaches for setting electric allowances. These alternatives were intended to improve certainty and predictability, strengthen emission reduction incentives, ensure objectivity and fairness, and enhance implementation efficiency, while also aligning with CETA requirements and linkage considerations and serving the best interests of our customers.

PSE proposed three alternative options to the current forecast-based rules. However, none of these recommendations were addressed by Ecology. The options were not mentioned during the November 13, 2025 workshop, and stakeholders were not given the opportunity to provide feedback or hear perspectives from other parties. This is deeply disappointing, as PSE invested significant effort to develop these options in response to Ecology's own question: "Should Ecology pursue rule amendments for the 2nd compliance period allocation to further support certainty and decarbonization incentives? For example, an approach that relies on a defined allocation schedule for a compliance period, with no or limited ability for revision or adjustment."

PSE strongly believes this question warrants further discussion among interested parties and encourages Ecology to hold an open, public workshop to revisit this issue and consider the options proposed by PSE and others.

Concern Regarding Potential Consignment Requirement

PSE is deeply concerned about any potential requirement to consign no-cost allowances that does not preserve the ability to retire allowances for direct compliance. The flexibility to surrender allowances directly for compliance is critical to mitigating costs and risks for electric customers and ensuring program effectiveness, as well as preserving the ability to meet other objectives such as the buildout of non-emitting resources to comply with the Clean Energy Transformation Act (CETA). Removing this option would significantly increase costs, introduce unnecessary risk, undermine the program's effectiveness, and run counter to the CCA legislative intent to prioritize CETA.

The requirement to consign, combined with constrained auction markets, will force electric utilities to purchase more allowances. This increases the likelihood of higher bidding strategies to secure needed volumes, greater reliance on secondary markets that consistently trade above auction settlement prices, and greater potential of price ceiling unit issuance for compliance. These factors compound compliance costs and risk creating a dysfunctional market hitting ceiling prices and vulnerable to market manipulations by those seeking to exploit largest participants' need to purchase large volumes of allowances. Such dynamics could jeopardize Ecology's ability to successfully implement the program and link with other markets.

These concerns are particularly acute for PSE considering the size of the Company's electric and natural gas service territories and the combined purchase limit for both. PSE faces unique challenges due to its customer count and sales volume, and combined purchase limits for PSE's electric and gas systems under the program. Any consignment requirement that restricts direct compliance would exacerbate these constraints, creating operational and financial risks that could impact reliability and affordability for our customers, as well as jeopardize program functionality and effectiveness and potential for linkage to other markets. Ecology's current draft rules leave PSE particularly vulnerable to market manipulation and extreme price pressures.

Utilities, including PSE, vehemently oppose any requirement to consign no-cost allowances and further expand on key objections to this proposal shared by all utilities in the Joint Comments filed concurrently on December 5, 2025:

- Removing the flexibility to use electric no-cost allowances for compliance and/or to consign would significantly increase costs, undermine program effectiveness, and raise costs for customers without any additional environmental benefit.
- CETA already mandates aggressive decarbonization—on a faster timeline than CCA---which requires significant financial investment by electric utilities such as PSE. CCA was designed to recognize and avoid conflict with CETA by mitigating costs for customers, not imposing additional burdens beyond what will already be incurred to comply with CETA.
- CETA and CCA use fundamentally different compliance frameworks—CETA relies on procurement and environmental attributes (e.g., non-emitting resources and RECs), while CCA uses emissions-based allowances. Ecology's proposal would force utilities to purchase separate compliance instruments for the same emissions, creating duplicative regulation and unnecessary costs.
- Washington's program was never intended to mirror California's, nor does California have anything resembling CETA; linkage does not require adopting California's consignment approach.
- Proposed rules fail to meet statutory cost mitigation requirements, introduce unnecessary complexity, and risk triggering price containment reserve auctions and the need for sale of price ceiling units. Back-and-forth changes to consignment requirements across compliance periods would further erode certainty and increase transaction costs.
- RCW 70A.65.120(3)(b) requires consultation with Commerce and WUTC. Little information or accessibility into this consultation process has been provided to stakeholders participating in the rulemaking process. This consultation should be transparent and inclusive.

PSE strongly urges Ecology to maintain the ability to use electric no-cost allowances for direct compliance and/or for consignment, and to engage stakeholders in further and more transparent discussion before advancing any consignment proposal.

Thank you for the opportunity to provide comments to inform rule changes for the Cap-and-Invest Program related to no-cost allowance allocation for electric utilities. 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

Wendy Gerlitz
Director, Regulatory Policy
Puget Sound Energy
PO Box 97034, BEL10W
Bellevue, WA 98009-9734
425-462-3051
Wendy.Gerlitz@pse.com