

November 22, 2024

VIA EMAIL – CCAutility@ecy.wa.gov

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

Re: Informal Comments on the Distribution of Administrative Cost Allowances Under the Climate Commitment Act

PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) respectfully submits the following comments in response to questions posed by the Washington Department of Ecology (Ecology) during the October 16, 2024, workshop discussing the distribution of no-cost allowances to electric utilities. PacifiCorp appreciates Ecology's increased engagement with electric utilities and its commitment to address the past and ongoing administrative costs of implementing the Climate Commitment Act (CCA).

As PacifiCorp's comments detail below, there are significant challenges to tracking and verifying the administrative costs associated with implementing the CCA. There is ambiguity in both the existing rule as to the scope of qualifying "administrative costs" and what documentation and process a utility may use to verify these costs. WAC 173-446-230(2)(h). PacifiCorp's comments below offer recommendations to implement the distribution of administrative cost allowances that capture the intent of Ecology's no-cost allowance rules, to protect electricity customers and mitigate the cost burden of the program.

I. PacifiCorp recommends that Ecology provide guidance regarding which activities are associated with administrative costs.

PacifiCorp recommends that Ecology issue clear guidance detailing specific activities that are associated with administrative costs and eligible for additional allowances. This clarity would benefit an equitable distribution of administrative cost allowances among utilities, as each utility and its staff would account for their time performing the same or similar activities, while referencing the same written guidance. Without additional guidance, a utility may over-claim or under-claim administrative costs, having a negative and uneven impact across utilities. Furthermore, additional specificity of which activities are associated with administrative costs would provide common examples and make Ecology's review of the utilities' administrative costs more efficient.

WAC 173-446-230(2)(h) states that administrative costs are "those costs associated with establishing and maintaining compliance accounts, tracking compliance, managing compliance instruments, and meeting the reporting and verification requirements of this chapter." PacifiCorp recommends that Ecology interpret this rule broadly and requests confirmation that the following activities are associated with administrative costs under the rule:

- Registering for a Compliance Instrument Tracking System Service (CITSS) account and registering authorized representatives, including getting documentation notarized;
- Preparing of applications, letters of credit, and other financial instruments for CCA allowance auctions;
- Buying, selling, and transferring CCA allowances;
- Researching and tracking CCA allowance prices from Ecology auctions and the secondary market, including consultants;
- Updating and maintaining CITSS account representatives, Corporate Associations and Structure Disclosure Forms, including coordinating with affiliates to update holding and purchase limit shares and updating list of officers;
- Reporting under WAC 173-441, including compiling necessary information across departments, contracting and working with a third-party verification body, and corresponding with Ecology to ensure a compliant and accurate greenhouse gas report submission and verified annual report;
- Working with Ecology on tailoring reporting methodologies and templates for Electric Power Entities, specifically multijurisdictional electric companies, to properly reflect emissions consistent with regulations;
- Calculating double obligations between the Washington and California programs under WAC 173-446-400(11); and
- Participating in Electricity Forums, workshops, and other rulemaking activities that impact reporting regulations and compliance calculations.

Since PacifiCorp is also subject to California cap-and-trade obligations, it is reasonable that PacifiCorp would submit to Ecology only half of the costs associated with activities managing both programs, such as registering for a CITSS account or calculating double obligations between the programs.

II. Administrative costs cannot be effectively demonstrated with PacifiCorp’s current audited financial statements or through traditional deferred accounting.

Accounting for administrative costs within the framework of current utility cost recovery practices poses many challenges. First, PacifiCorp does not currently have an audited financial statement that isolates CCA-specific administrative cost activities. There are practical and cost challenges in creating a CCA-specific audited financial statement under the Company’s current rigorous auditing practices, given the relatively low alleviation it may provide through the distribution of administrative cost allowances. PacifiCorp recommends that Ecology clarify what is meant by an “audited financial statement,” under WAC 173-446-230(2)(h), and whether a

utility may provide verification of administrative costs with documentation that is auditable, but outside of the utility's current audit process.

Second, the utility's traditional deferred accounting method of cost recovery is not appropriate for demonstrating administrative costs under the CCA. In rate making, utilities often defer expenses to an account – often called a “deferral account” or “regulatory asset” – that the utility seeks recovery of through a later public utility commission proceeding. These deferral accounts are generally used for large costs, often in the millions or tens-of-millions of dollars. For example, PacifiCorp's annual fuel costs, known in Washington as the Power Cost Adjustment Mechanism, are recovered through deferred accounting. PacifiCorp, as an electric-only utility, has not filed a deferred accounting petition for allowance costs affecting its Washington retail customers. Also, PacifiCorp does not expect its eligible administrative costs under WAC 173-446-230(2)(h) to be large enough to warrant the creation of a deferral account. Furthermore, deferred accounting is generally not used for a singular function, like the activities listed in WAC 173-446-230(2)(h).

PacifiCorp recognizes that, pursuant to WAC 173-446-230(2)(h), Ecology “will *consult* with the utilities and transportation commission in its calculations for the administrative costs for investor-owned utilities.” (emphasis added). PacifiCorp recommends that Ecology recognize that its *consultation* does not *require* the deferred accounting method for demonstrating administrative costs, and that a utility may use alternative methods for administrative cost accounting under the rule.

III. Instead of deferred accounting, PacifiCorp can verify administrative costs by submitting time entry logs and receipts directly to Ecology.

To avoid creating a new and burdensome regulatory process before the Washington Utilities and Transportation Commission (UTC), PacifiCorp recommends that Ecology allow electric utilities to verify administrative costs directly with Ecology, which in turn may consult with the UTC. Both WAC 173-446-230(2) and RCW 70A.65.120(2) require only that Ecology *consult* with UTC in reviewing administrative costs and establishing no cost allowance rules, respectively, and neither of these authorities require that utilities submit data directly to the UTC. Furthermore, because PacifiCorp is not currently using a deferral account to demonstrate CCA administrative costs, the UTC does not currently have insight into the Company's eligible administrative costs under Ecology's rule.

With additional guidance requested in Section I above, PacifiCorp can effectively track employee time spent on activities associated with administrative costs by having employees enter time under a unique billing code on timesheets and detail actions performed on a separate log. With a dual billing code and log accounting system, the Company can calculate a total cost of labor, inclusive of salary and benefits, and provide verifiable documentation that the employee time was spent on an activity associated with an administrative cost. Any non-labor eligible administrative costs, such as the cost of third-party verification, can be demonstrated with receipts emailed directly to Ecology.

PacifiCorp recommends that Ecology create a simple template for utilities to log time, with a drop-down list of the allowable activities. A template will standardize the time accounting process among utilities and allow Ecology to efficiently organize and analyze utility submissions, versus sifting through dozens of different formats created by each individual utility.

IV. Administrative cost allowances should be treated differently from other “no-cost” allowances to ensure an appropriate mitigation of the cost burden of the program.

Administrative cost allowances differ from other no-cost allowances in the way they are calculated and distributed. Administrative cost allowances are based on actual costs incurred by the utility and are not subject to the demand forecast projection process, approved by the UTC, to cover a utility's compliance obligation. WAC 173-446-230(2)(c). Unlike no-cost allowances allocated to cover a utility's compliance obligation, administrative cost allowances are not tied to emissions and are borne by all the utility's customers. For PacifiCorp, this means that administrative costs are borne by customers in the six states the Company serves. Because of this essential difference, administrative cost allowances should benefit all PacifiCorp's customers, not just its Washington customers. PacifiCorp recommends that Ecology allocate all administrative cost allowances that were incurred each year first to a utility's compliance obligation in that year. This treatment avoids unnecessary complexities with annual retirement requirements and will align with when the expenses were incurred. In addition, distribution of administrative allowances should not, in any way, lessen the number of other no-cost allowances available to a utility to cover its compliance obligation.

V. PacifiCorp recommends Ecology engage in rulemaking to amend WAC 173-446-230 and simplify the distribution of administrative cost allowances.

As an alternative to the recommendations above, PacifiCorp recommends that Ecology engage in rulemaking to amend WAC-173-446-230 and simplify the distribution of administrative cost allowances by allocating a pre-determined number of allowances to each utility. PacifiCorp and other utilities have incurred significant administrative costs to date to implement the CCA. However, due to the challenges listed above, it is possible that no utility will be able to sufficiently verify its administrative costs. Furthermore, nearly half-way through the CCA's first compliance period, there remains an absence of a clear process for utilities to account for and verify the program's administrative costs. Although well-intentioned, the current rule has proven unduly difficult to implement, in contravention of the CCA's clear protections for utility customers.

As an alternative, Ecology could amend its rule and give itself the authority to allocate a set number of administrative cost allowances to each utility as part of its annual no-cost allowance distribution. The utility could then retire these allowances to meet its compliance obligation or assign them to auction. Through the rulemaking process, Ecology could gather feedback on how many administrative cost allowances should be allocated to each utility, whether each utility should receive the same number of administrative cost allowances, or whether Ecology should adopt a methodology for all utilities, such as a multiplier to a base number of allowances, that would allocate more administrative cost allowances to more complex utilities. A multiplier would recognize that each utility is unique and differs in complexity, and

that these differences result in differing administrative costs. A simple, fair, pre-determined allocation of administrative cost allowances will ensure the consistent application of the law, provide efficiencies to both utilities and Ecology, and appropriately insulate customers from the cost burden of the program.

VI. Conclusion

Without additional guidance from Ecology, there are significant challenges in implementing the current administrative cost allowance distribution rule. PacifiCorp thanks Ecology for recognizing and addressing this critical issue and welcomes future guidance or rulemaking to make the distribution of administrative cost allowances simpler and more equitable for utilities and their customers.

Sincerely,

/s/
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