August 15th, 2025

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

Re: July 22nd, 2025 Cap-and-Invest: No-cost allowance allocation for electric utilities workshop

The Energy Authority (TEA) appreciates the opportunity to comment on the Washington Department of Ecology's (Ecology) July 22, 2025, No-cost allowance allocation for electric utilities workshop. TEA's comments are generally aimed at addressing questions raised by Ecology in its July 22nd presentation.

Consignment requirements

TEA is concerned that there may be a significant number of allowances that are not being consigned to auction or used for compliance. This may be causing an allowance price distortion that is unrelated to allowance supply and demand.

TEA believes there may be liquidity benefits to the program from incentivizing electric utilities to consign no-cost allowances. Those who consign allowances at auction are price takers meaning they have no ability to sell allowances at a specific price. Given this, any allowance consignment, without a commensurate increase in allowance bids, will lower the auction clearing price. Using the bids in Table 1 as an example, if there were 30,000 allowances offered into this hypothetical Auction #1, the auction clearing price would be $55. Alternatively, if there were 40,000 allowances offered into the auction without any change to the bid volumes or prices, the auction clearing price would be $45.

Table 1. Auction bid volumes and prices for a hypothetical Auction #1.

Bid	Bid Volume	Bid Price	Cumulative Bid Volume
Bid #1	10,000	$75	10,000
Bid #2	10,000	$65	20,000
Bid #3	10,000	$55	30,000
Bid #4	10,000	$45	40,000

Because no cost allowances do not expire, entities with an allowance surplus may not consign surplus allowances in a timely manner. As shown in Table 2 below, only 16.7 million Vintage 2023 and 2024 allowances have been consigned by natural gas and electric utilities across all auctions to date. Of this 16.7 million, 10.5 million of these allowances were required to be consigned by natural gas utilities. This means only 6.2 million allowances were voluntarily consigned. If all of the 6.2 million allowances were consigned by electric utilities, that would imply only 18% of the total allowance distributed to electric utilities have been consigned to auction. In reality, it is likely that only a portion of this 6.2 million was consigned by electric utilities, and the true amount of allowances consigned by electric utilities is even less than 18%. Ultimately, TEA is concerned that there may be a significant number of allowances that are not being consigned to auction or used for compliance, and this may be causing an allowance price distortion that is unrelated to allowance supply and demand.

Table 2. Comparison of Vintage 2023 and 2024 allowances consigned to date vs. total 2023 and 2024 Vintage allowances distributed to utilities[1]

	Vintage 2023	Vintage 2024	Total
Total V23 and V24 Allowances Consigned to Date	8,520,491	8,182,857	16,703,348
Total Allowances Distributed to Natural Gas Utilities	8,059,631	7,452,993	15,512,624
Total Allowances Distributed to Electric Utilities	17,489,792	16,395,535	33,885,327
Total Natural Gas Allowances Required for Consignment	5,238,760	5,217,095	10,455,855
Total Remaining Consigned Allowances Minus Natural Gas Allowances Required for Consignment	**3,281,731**	**2,965,762**	**6,247,493**

Compliance instrument price distortion can have impacts beyond the direct cost to covered entities to purchase allowances for compliance. Carbon allowance prices are embedded in Northwest wholesale power prices. Entities who own emitting resources are incentivized to incorporate the cost of allowances into their energy offers because each avoided 1 MTCO2e results in 1 fewer allowance to purchase or 1 surplus allowance that can be monetized. For this reason, allowance prices directly impact wholesale power prices in Washington. In particular, higher allowance prices lead to a greater divergence between power prices in Washington and power prices in the rest of the region. Market "seams" can create inefficiencies such as decreased supply diversity and increased costs to consumers. These carbon market "seams" may worsen once Northwest balance authorities join centralized markets, and a carbon price is explicitly considered in the market dispatch optimization. To limit impacts on wholesale power markets, TEA recommends Ecology aim to mitigate influences on allowance pricing that are unrelated to supply and demand.

TEA recommends Ecology avoid requiring COUs to consign a specific amount of allowances.

Requiring utilities to consign 100% of their allocated no-cost allowances would ensure that all surplus allowances are available for purchase at auction. However, if a 100% consignment requirement is applied to utilities, those who are covered entities will need to purchase most or all of the volume of consigned allowances to meet their compliance requirements. For these entities, a significant amount of collateral is required for the bid guarantee, and this will be difficult for many utilities to achieve. If all allowances are required to be consigned to auction, to ensure sufficient allowances are purchased at auctions for compliance, compliance entities are likely to place bid guarantees based on their entire allowance need at the allowance ceiling price. Even if the utility is able to hedge their cost risk by consigning and bidding on the same amount of allowances in the same auction, the amount of cash required for the bid guarantee will be extremely high.

TEA recommends Ecology consider ways to encourage utility allowance consignment while accounting for the requirements of utilities. TEA recommends Ecology avoid requiring COUs to consign a specific amount of allowances. In addition to the issues mentioned above pertaining to covered entities, there are specific program features that make it difficult for COUs to consign 100% of their allocated allowances. Most COUs in Washington are BPA preference customers. If, at some point, BPA elects to become the First Jurisdictional Deliverer (FJD), then preference customers may elect to transfer some or all of their allowances to BPA. Adding a consignment requirement for COUs would complicate the process of transferring allowances to BPA for compliance. TEA is

[1] Sources: https://ecology.wa.gov/air-climate/climate-commitment-act/cap-and-invest/no-cost-allowances, https://ecology.wa.gov/air-climate/climate-commitment-act/cap-and-invest/auctions-and-market

concerned that there may be competing requirements if at some point BPA requires preference customers to transfer no-cost allowances.

TEA recommends Ecology develop mechanisms to encourage or incentivize consignment of unclaimed no-cost allowances.

TEA recognizes that excluding COUs from the consignment requirement does not necessarily address the fact that some COUs have surplus allowances that to date, 30 months into the program, have not been consigned. As demonstrated in Table 33, 19 electric utilities are not included in Ecology's 2025 Q2 CITSS Registrant Report [2]. All of the utilities missing from the registrants list are small and are likely not registered because they are below the compliance threshold and therefore have no requirement to consign allowances or set up a CITSS account. Additionally, many of these utilities may be hesitant to consign due to the uncertainty around the acceptable uses of auction funds. Ultimately, this means that at least 19 utilities have consigned 0 no cost allowances that are surplus to their needs over the past two and a half years. Across the compliance period, the total amount of allowances from unregistered utilities that are not consigned at auction is over 270,000 (Table 33). At $60/allowance, this equates to about $16M in value. This volume of un-consigned surplus does not include utilities who are registered in CITSS but have decided not to consign surplus allowances.

TEA recommends Ecology develop mechanisms to encourage or incentivize consignment of unclaimed no-cost allowances. One way to ensure these are consigned would be for Ecology to consign unclaimed allowances into auctions after the end of the compliance period. TEA cautions that an approach like this needs to be done carefully, and this consignment mechanism should only apply to utilities who are entitled to no cost allocations that have not been claimed due to failure to register in CITSS. The specific utilities without CITSS accounts would need to be contacted directly and given plenty of advance notice that they would lose out on the value associated with the surplus allowances. Further, Ecology should consider the result of sudden changes in auction supply and consign the unclaimed allowances over the course of the following compliance period rather than all at once.

In summary, TEA recommends Ecology work with utilities to find methods of incentivizing allowance consignment without explicitly requiring a specific amount of allowance consignment.

Ensuring that unused allowance surpluses are in the market is important for allowance liquidity and preventing unnecessary energy market seams issues. However, requiring a specific amount of consignment is administratively burdensome. TEA believes that there is a middle ground and suggests Ecology work directly with utilities on this important aspect of the program.

Proposal to Amend July 30 Deadline in WAC 173-446-230(2)

TEA is supportive of Ecology amending the July 30 deadline in WAC 173-446-230(2) to Sep. 5 to better align with other WA compliance deadlines such as for Integrated Resource Plans and Clean Energy Implementation Plans.

Allowance Adjustment Guidelines

TEA supports parts of Ecology's suggested guidance on allowance adjustments. For example, TEA strongly supports Ecology's clarification that lower than forecast emissions related to market optimization or other overachievement of decarbonization will not result in a decreased allowance allocation. However, TEA does not

[2] Source: https://apps.ecology.wa.gov/publications/documents/2514042.pdf

support backward-looking allowance adjustments[3], as discussed in previous comments[4]. TEA especially opposes allowance adjustments related to Ecology's distributed allowances for EIM emissions. That being said, if Ecology decides to pursue allowance adjustments, TEA suggests two changes to the guidance.

First, rather than indicating that Ecology may consider adjustments related to "misrepresentation", a concept that is somewhat nebulous, TEA recommends that Ecology modify the guidance to be more specific. TEA suggests Ecology clarify that the adjustments would occur if a forecast is inconsistent from other recent forecasts without clear explanation. TEA also strongly recommends that Ecology adjust allocations for inconsistent forecasting ***prior*** to a given emissions year rather than after. It is important for planning purposes that utilities may have as much advanced notice as possible for changes in allocations.

Second, allowing backward-looking adjustments for a 15% total differential in load forecast and actuals may be inconsistent with Ecology's guidance that allowances will not be removed for lower than forecast emissions due to energy efficiency. For a small utility, introducing programs such as time-of-use rates, demand response, or residential solar could have a large impact on reducing load relative to total utility size. Additionally, large industrial facility demand response programs may also have the potential to significantly reduce load vs. forecast. This could be particularly true in periods when power prices may be higher than usual, and demand response is more economically viable as a result. Demand response is generation considered a decarbonization measure, as the marginal resources in scarcity events are usually high emitting resources such as inefficient thermal units. In a given year, TEA believes that large load demand response combined with weather driven or other typical load forecast divergence could result in a greater than 15% forecast differential. TEA is concerned that proposed guidance could lead to downward allowance adjustments made in response to decarbonization efforts.

In order to mitigate the potential for downward allowance adjustments in response to overachievement decarbonization efforts, TEA recommends that Ecology increase the threshold for retail load forecast differential that triggers an allowance adjustment from 15% to 25%. TEA also recommends that Ecology give the utilities an opportunity to respond to the forecast adjustments and provide context for the forecast differential. It is TEA's understanding that the main impetus for Ecology allowing adjustments related to forecast error is largely aimed at discrete large load delays or outages rather than weather related forecast changes or demand response programs. For this reason, TEA suggests that the 25% differential adjustment trigger is specific to situations where actual loads are lower than forecast loads. The reasoning for specifically tying the adjustment to an over forecast is twofold:

1. TEA believes that adjusting allowances based on a 25% or greater over forecast of allowances is in line with the intention of the adjustment mechanism to target under forecasting of large loads.
2. TEA believes that Ecology allowing for a forecast adjustment "per request of utilities" covers situations where a utility's load is greater than forecast. TEA is concerned that the bi-directional load forecast differential adjustment could lead to a situation where a utility has very high loads, but they do not quite meet the differential threshold. For example, if adjustments are only made when loads differ by 25%, and the utility's load comes in 24% greater than forecast, TEA would want to ensure that this utility is still eligible for allowance adjustment.

[3] Backward-looking adjustments refers to adjustments of future allowance allocations based on actual reported carbon emissions, loads, resource performance, or any other historical data.

[4] https://scs-public.s3-us-gov-west-1.amazonaws.com/env_production/oid100/did200118/pid_210883/assets/merged/800sikdih6z_document.pdf?v=23218

Requested Feedback

Ecology asked the following question in the July 22nd meeting:

> *"Should Ecology pursue rule amendments for 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."*

TEA supports Ecology pursuing rule amendments that provide certainty to allowance allocations and support decarbonization optimization incentives such as limiting backward-looking allowance adjustments. However, there are some forward-looking adjustments Ecology should retain within the compliance period. For example, for BPA customers, the allocations for each year should reflect the updated BPA ACS emissions factor. BPA preference customers do not have the ability to influence the BPA ACS factor, so providing allowances that are consistent with the actual BPA ACS emissions factor that will be used for that year will not create an issue of perverse incentives. Further, Ecology should allow future looking adjustments based on load or resource forecast changes. While backward-looking adjustments based on actuals could lead to perverse incentives[5], forward-looking adjustments based on updated forecast information such as changes in discrete large loads or new generation assets should be reflected to better capture the utility's cost burden.

Lastly, Ecology's cost burden guidance indicates that "average hydroelectric conditions" must be used to create a forecast of load served by hydro resources. TEA notes that BPA and other owners of hydro often consider the impact of climate change on hydro planning[6]. 4 of the past 5 water years have been extremely poor relative to history as indicated in Figure 1. Additionally, of the last 14 water years, 8 years have been below the 30-year normal. For this reason, TEA suggests Ecology clarify that a more recent 10 or 15 year normal may be used for to calculate "average hydroelectric" generation forecasts.

Conclusion

TEA sincerely appreciates the opportunity to provide feedback to Ecology on no cost allocations for electric utilities. TEA recognizes Ecology's hard work, not only in ensuring that stakeholders have the opportunity to provide feedback but also in reviewing and responding to feedback. We look forward to continuing to work with the Department of Ecology on these important Cap-and-Invest program topics.

Sincerely,

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[5] https://scs-public.s3-us-gov-west-1.amazonaws.com/env_production/oid100/did200118/pid_210883/assets/merged/800sikdih6z_document.pdf?v=23218

[6] Source: https://www.bpa.gov/-/media/Aep/power/hydropower-data-studies/climate-change-update-to-the-long-term-hydro-generation-forecast-letter.pdf

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Appendix

Table 33. This table uses Ecology's Electric Utility No Cost Allowance Dataset[7] along with Ecology's 2025 Q2 CITSS Registrant Report[8] to demonstrate the volume of allowances that have not been distributed to utilities.

COU	2023	2024	2025	2026	Excluded from CITSS Registrant Report	Sum of 2023-2026 No Cost Allowances Without Account
Avista	1,940,434	1,672,627	1,419,682	913,910		
Benton County PUD #1	120,731	120,362	84,459	33,327		
Benton REA	21,869	21,663	25,752	10,188		
Big Bend Elec Coop	49,154	37,983	27,042	11,123		
Blaine, City of	3,014	2,976	3,885	1,614	1	11,489
Centralia, City of	13,059	12,648	10,023	3,613		
Chelan PUD	226,451	227,378	218,829	207,866		
Cheney, City of	12,176	5,457	7,138	3,064	1	27,835
Chewelah, City of	801	793	998	407	1	2,999
Clallam County PUD #1	24,607	24,261	30,409	12,363		
Clark County PUD #1	1,020,697	1,033,055	1,040,084	773,587		
Columbia REA	29,413	29,386	33,778	26,331		
Coulee Dam, City of	648	644	810	333	1	2,435
Cowlitz County PUD #1	263,910	278,608	341,973	217,124		
Douglas County PUD #1	631,614	664,085	656,461	46,942		
Eatonville, City of	1,053	1,045	1,290	522	1	3,910
Ellensburg, City of	7,826	7,766	10,186	4,252		
Elmhurst Mutual P & L	10,460	10,339	13,080	5,370		
Ferry County PUD #1	2,802	2,709	4,124	1,982		
Franklin County PUD #1	140,118	140,609	141,958	118,299		
Grant County PUD #2	2,151,094	2,298,836	2,199,147	2,187,049		
Grays Harbor PUD #1	70,462	69,496	47,608	18,637		
Inland P & L	96,461	78,087	51,141	21,190		
Jefferson County PUD #1	14,572	14,469	18,276	7,505		
Kittitas County PUD #1	4,430	4,390	4,951	1,949	1	15,720
Klickitat County PUD #1	36,819	21,063	22,953	9,017		
Lakeview L & P (WA)	9,632	9,552	11,995	4,900	1	36,079
Lewis County PUD #1	114,464	102,999	111,535	90,455		
Mason County PUD #1	3,300	3,239	3,909	1,555		

[7] Source: https://apps.ecology.wa.gov/publications/othersupplements/2302031other.xlsx
[8] Source: https://apps.ecology.wa.gov/publications/documents/2514042.pdf

Mason County PUD #3	26,255	26,304	31,687	12,715		
McCleary, City of	1,199	1,192	1,948	921	1	5,260
Milton, Town of	2,114	2,088	2,619	1,066	1	7,887
Modern Elec Coop	8,567	8,482	10,774	4,438	1	32,261
Nespelem Valley Elec Coop	2,751	2,723	3,241	1,292	1	10,007
Ohop Mutual Light Company	3,629	3,575	4,639	1,938	1	13,781
Okanogan County Elec Coop	2,402	2,390	3,101	1,291	1	9,184
Okanogan County PUD #1	123,337	114,265	113,787	19,760		
Orcas P & L	8,798	8,728	9,770	3,789	1	31,085
Pacific County PUD #2	18,159	18,040	14,661	6,077		
PacifiCorp	2,489,384	2,206,443	1,630,661	942,374		
Parkland L & W	4,302	4,240	5,327	2,175	1	16,044
Pend Oreille County PUD #1	53,499	55,033	57,809	10,205		
Peninsula Light Company	22,616	22,036	27,210	10,978		
Port Angeles, City of	15,294	15,328	18,516	7,433		
Puget Sound Energy	6,642,604	6,003,582	5,561,609	3,711,273		
Richland, City of	57,497	35,132	44,269	18,110		
Ruston, Town of	206	203	347	263	1	1,019
Seattle City Light	403,397	395,506	383,069	251,767		
Skamania County PUD #1	5,369	5,332	6,310	2,520		
Snohomish County PUD #1	394,381	394,601	457,004	279,011		
Steilacoom, Town of	1,483	1,463	1,829	748	1	5,523
Sumas, Town of	1,201	1,187	1,516	617	1	4,521
Tacoma Public Utilities	161,142	157,268	334,831	270,016		
Tanner Elec Coop	3,699	3,651	4,585	1,876		
Vera Irrigation District	12,730	8,539	10,843	4,470	1	36,582
Wahkiakum County PUD #1	1,708	1,679	2,088	850		
Total	**17.4M**	**16.4M**	**15.3M**	**10.3M**	**19**	**273,621**

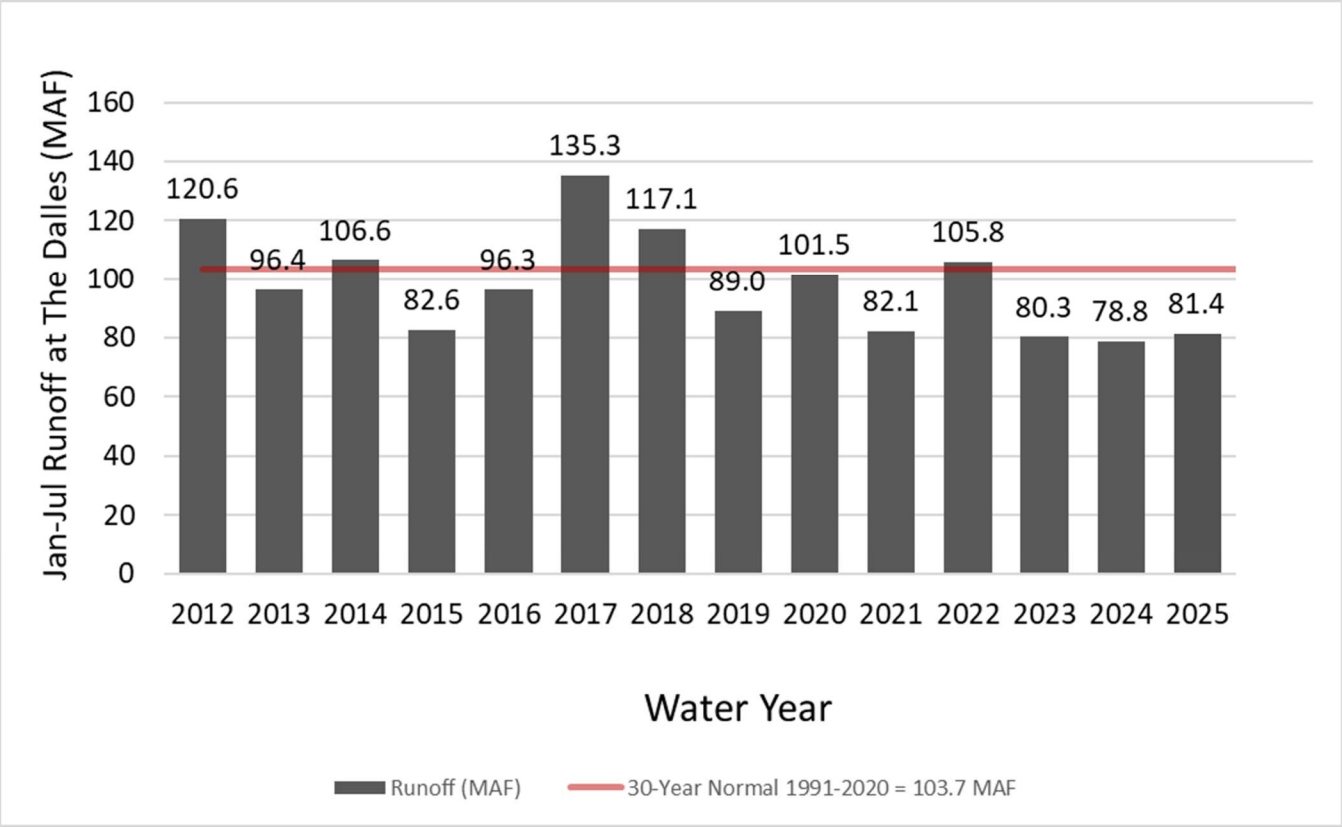

Figure 1. Jan-July runoff at The Dalles Dam in million acre-feet (MAF). Source: Northwest River Forecast Center