

# Climate Commitment Act Workshop Series

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**Washington Utilities &  
Transportation Commission**

November 8, 2023



**UTC**

Washington Utilities  
and Transportation  
Commission

# Agenda

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- **Welcome, Opening Remarks, and Introduction**
- **Summary of previous workshops**
- **Overview of risk sharing mechanisms at the Commission**
- **Discussion 1: CCA Risk Sharing Discussion**
- **10 Minute Break**
- **Discussion 2: CCA Dispatch Cost Modeling Discussion**
- **10 Minute Break**
- **Wrapping up the CCA Workshop Series**
- **Questions**
- **Closing Remarks & Adjourn**



# CCA Workshop Series Work Plan

Event	Date
Notice of first workshop: CCA 101	March 15, 2023
Notice of opportunity to file written comments on draft CCA work plan, action timeline, and future workshops	April 10, 2023
First CCA workshop: CCA 101	April 10, 2023
Written comments due – Proposed topics for discussion	May 10, 2023
Notice of second workshop – Second CCA workshop topics (Auction revenues to benefit ratepayers, “low-income” definition, CCA cost recovery); issue final CCA work plan and action timeline.	June 15, 2023
Second CCA workshop: Second CCA workshop topics (Auction revenues to benefit ratepayers, defining “low-income,” cost recovery).	July 26, 2023
Third CCA Workshop: – Continuation of cost recovery and planning issues (Long-term utility planning forecasts and forecast adjustments).	September 15, 2023
<b>Fourth CCA workshop: Risk sharing and dispatch modeling</b>	<b>November 8, 2023</b>
Rulemaking	Timeline TBD







# Workshop #1 Summary

## Commission Jurisdiction

- Climate Commitment Act is primarily regulated by the Department of Ecology
- UTC is directly involved under two WACs:
  - WAC 173-446-230
    - Approval of supply/demand forecasts for estimates of retail electric load and forecasted resource fuel types to deliver load (**Only applicable for electric IOUs, not natural gas**)
    - UTC retains “oversight and jurisdiction over the **use of revenues** collected from an investor-owned utility through the consignment and auction of no cost allowances **for the benefit of ratepayers.**”
  - WAC 173-446-240
    - The UTC “retains jurisdiction over the **use of the revenues** collected by investor-owned utilities from allowances consigned **for the benefit of ratepayers.**”



# Workshop #1 Summary

## Ecology Jurisdiction (highlights – non-exhaustive list)

- RCW 70A.65- Cap and Invest Program Creation, Administration, and Enforcement
  - Monitoring/oversight of sale/transfer of allowances
  - Establishing and administering auctions
- RCW 70A.65.020 - Environmental Justice Review
- RCW 70A.65.120 - Allocation of no-cost allocations to electric utilities
  - WAC 173-446-230 - Distribution of allowances to electric utilities.
- RCW 70A.65.130 - Allocation of no-cost allocations to gas utilities
  - WAC 173-446-240 – Distribution of allowances to gas utilities.



# Workshop #1 Summary

## Docket Scope

- Solicit feedback and facilitate discussion on Commission scope, process, and content in development of Commission guidance on CCA matters
- Provide guidance on interested party and Commission identified CCA issues
- Develop a Policy Statement or rule to issue Commission guidance on identified CCA issues







# Workshop #2 Summary

## No Cost Allowances

- Once utilities satisfy their statutory obligation to eliminate impacts to low-income customers, how should utilities use the revenue from CCA allowances?
  - Statute provides some specific examples for gas but is vague for electric
  - Can this revenue be used to purchase offsets?
  - Can the revenue be used to purchase RNG or other alternative decarb strategies?
  - Utilities need clear but flexible guidance to make significant decarb investments
  - Support for prioritization of low-income focused programs and decarb efforts and guidance on reducing long-term compliance costs
- How should the UTC, utilities, or Advisory Groups determine how CCA revenue is used to benefit customers?
- Support for annual report detailing number of allowances received, consigned, use of revenue, etc. – however there are legal restrictions in ECY rules



# Workshop #2 Summary

## Defining Low-Income

- CETA provides a clear definition of low-income. Should continue using it for consistency
- Challenges arise around how to identify low-income customers (i.e. known low-income (KLI), what data is collected)
  - KLI provides a good baseline for identification
    - Beyond baseline, cannot have uniform approach right now as all utilities are not in same place regarding data on their customers, rely on low-income advisory groups
    - Helpful to have Commission guidance stating KLI is baseline and directing IOUs to go beyond
- Is identification for the purpose of outreach or automatic enrollment for this credit?
- Guidance to utilities on automatic enrollment regarding equity and privacy concerns
- Potential Metrics:
  - 1) KLI over estimated amount of low-income, based on low-income needs assessment,
  - 2) Percent of KLI that are above a certain energy burden threshold,
  - 3) Metric related to CCA credit amount and how that relates to bill amount

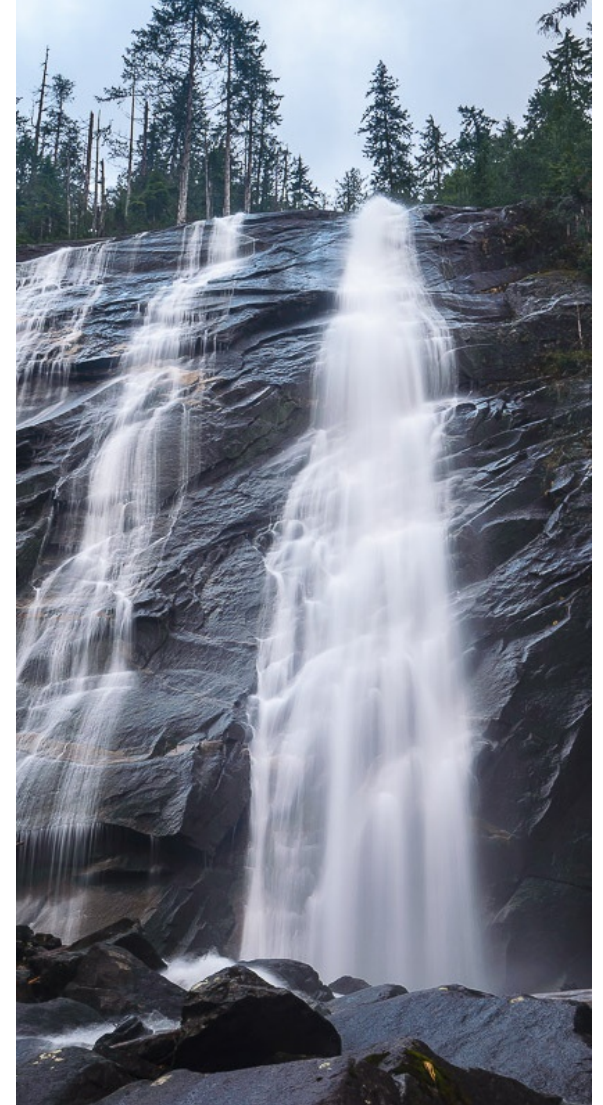


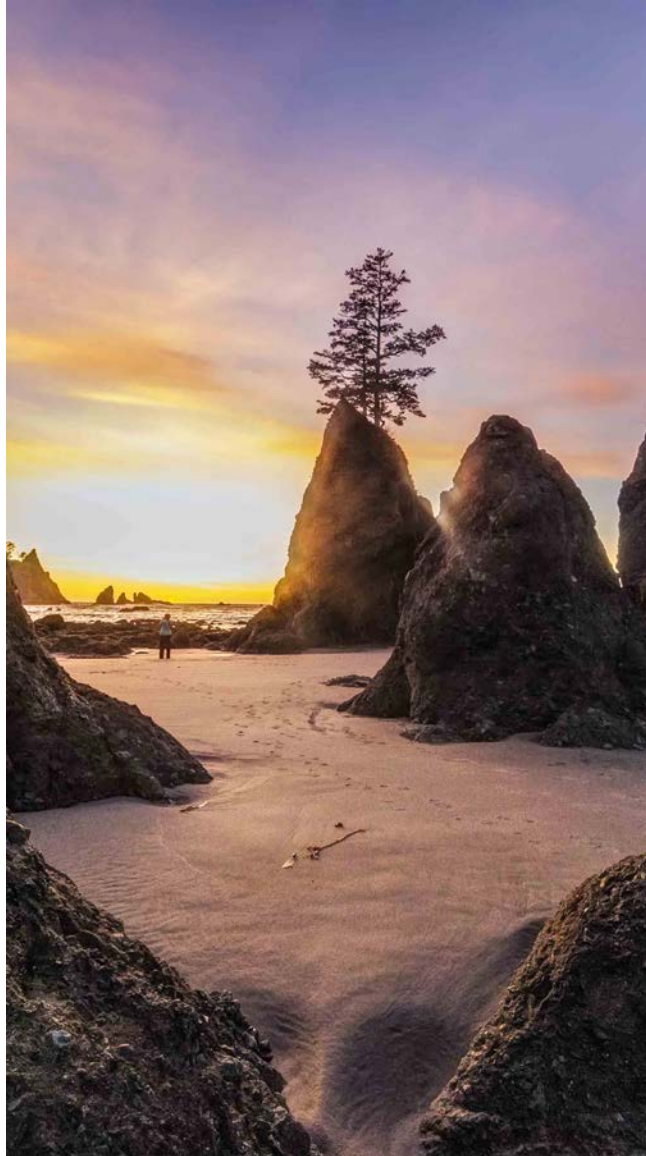


# Workshop #2 Summary

## CCA Cost Recovery

- Separate tariff mechanism aligned with timing of PGA and using deferral as true-up mechanism for following year most appropriate. Concern about accuracy of forecasts due to market uncertainties
- What is the prudence of buying allowances vs decarbonizing?
  - Traditional cost-effective analysis pushes to a more allowance focused pathway
- GRC may be a good place to determine prudence for CCA compliance costs
  - Minimizing the number of dockets in which prudence is determined gives non-companies party more of a chance to weigh in in-depth without being spread as thin
- Discussion of a Cost-Sharing or Risk-sharing mechanism
  - Debate over appropriateness of NWECA proposed risk-sharing mechanism
  - Debate over Commission authority with cost-sharing
  - Concern about creating a mechanism that incentivizes non-cost-effective decisions





# Workshop #3 Summary

## CCA Forecasting, Long-Term Planning

- Modeling should reflect dispatch logic and seek to minimize costs to customers, still focused on least reasonable cost
- There are still significant questions that need to be answered regarding how Ecology will allocate no-cost allowances to electric utilities
  - No-cost allowances distort the behavior of market participants
  - Clarity is needed in order to implement no-cost allowances into dispatch and modeling logic
- Questions remain on what guidance should be for modeling GHG costs in dispatch – to be covered today



# Workshop #3 Summary

## CCA Tariffs and Cost Recovery

- Base Rates vs. Separate Tariff
  - Depends on what will be included under “CCA Costs”, such as fuel contracts, capital expenditures, etc.
  - A separate tariff would be a cleaner option, but the GRC may allow for general investments to help comply with CCA
  - Need to holistically understand CCA cases
- Confidentiality concerns
  - Utility concern about confidentiality of bidding strategies
  - Rules prevent public disclosure but does not prevent UTC from receiving information confidentially

## CCA Risk Sharing Mechanism

- Short on time, more discussion during 4<sup>th</sup> workshop







# Examples of Risk Sharing Mechanisms

## **Power Cost Adjustment Mechanism (PCAM)**

- Incentivizes companies to manage power costs effectively and shares risks between utilities and consumers
- All three electric IOUs in WA have a PCAM, with varying components for deadbands, sharing bands, and thresholds for deferrals of refunds/surcharges
- Net Power Costs (NPC) are forecasted to set rates for customers, and then compared to Actual NPC to determine refunds/surcharges

## **NWEC proposal for CCA from UG-230470 (PSE CCA Tariff)**

- Baseline example, no-cost allocation schedule for NG utilities provided by Ecology
- Customers pay for 100% of costs until the total allowances purchased equal the utility's no-cost allowance allocation, cost sharing occurs above the baseline
- If allowance purchases are below the no-cost allocation baseline, savings sharing occurs



# Discussion 1: CCA Risk Sharing Discussion

## Themes from Public Comments

- Risks and utility control over them
  - Under utility control: CCA compliance and bidding strategies, alternative compliance methods
  - Not under utility control: Weather, allowance availability, conservation, linkage
  - Question of whether risks need to be under utility control to be shared
- CCA risk sharing mechanism structure
  - Should be based on evidentiary record without adding additional compliance burdens
  - Potentially be included in the annual Purchased Gas Adjustment Mechanism
  - Balance of upside and downside to both utilities and consumers
  - Potential performance based regulatory concepts
- Assessing for prudence
  - General UTC standard for prudence; demonstrate reasonable action based on available information at the time
  - IRPs as evidence when determining rate treatment
  - Demonstrate quick response time to new and evolving CCA conditions
- Frequency of prudence reviews
  - Every 4 years
    - Aligns with compliance periods for CCA, additional reviews will add compliance burden
  - Annually
    - Delayed recovery increases costs
    - Prudence standard should not depend on what the final outcome is throughout the compliance period





# Discussion 1: CCA Risk Sharing Discussion

1. For a potential CCA risk sharing mechanism, what risks associated with the CCA are under utility control? Examples may include market risk, energy procurement, conservation levels, etc.
2. How should a potential CCA risk sharing mechanism be structured?
3. What should the Commission consider when assessing utility actions for prudence as they relate to the CCA?
4. When should the risk sharing mechanism allow for prudence determination? Every auction, yearly, every four-year compliance period, or another frequency?





**10 Minute Break**



# Discussion 2: CCA Tariffs and Cost Recovery

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## Themes from Public Comments

- Requiring GHG costs in dispatch modeling
  - No
    - May lower surplus sales revenues and accelerate depreciation
    - Harm to consumers in other jurisdictions
  - Yes
    - Without CCA costs in dispatch, no-cost allowances may result in more emissions
    - Appropriate inclusion minimizes costs to customers
- Information needed to add GHG costs to dispatch
  - Generator emission rates
  - CCA allowance prices, potentially with a formula or proxy price to project into the future
  - Relies on volatile forecasts of load, variable resource generation, market prices, allowance prices
- Effect on customers
  - WA customer rates would be higher due to reduced dispatch and market sales
  - Because IOUs receive no-cost allowances, inclusion of GHG costs should have no negative impact
  - Failing to include GHG costs will prevent true economic dispatch
  - If GHG costs are accurately included, avoided cost from reduced emissions will more than offset net cost increase. Depends on accuracy of GHG cost assumptions.



# Discussion 2: CCA Tariffs and Cost Recovery

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5. Should the Commission require utilities to include GHG costs in their dispatch modeling?
6. What information is needed/readily available to effectively model GHG costs in dispatch, and what assumptions can be made to navigate any potential data limitations?
7. What effect would the inclusion of GHG costs in dispatch modeling have on customers?





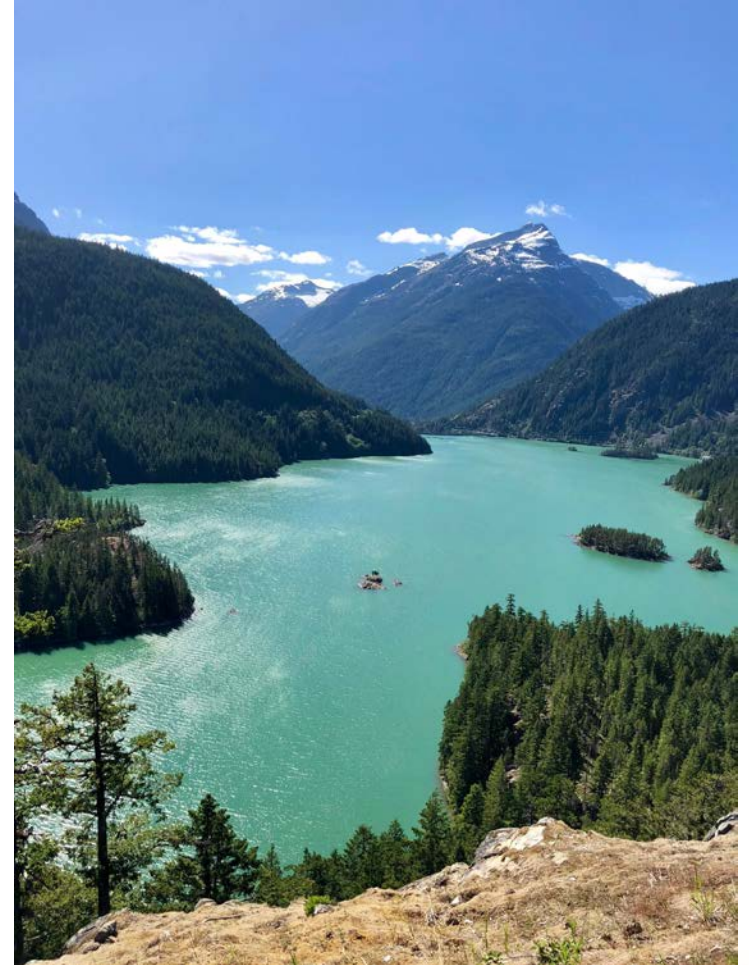
**10 Minute Break**



# Time for additional comments, discussion

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- Now that we are at the end of the CCA workshop series, we have included some additional time for parties to address any outstanding topics from the past workshops
- As a participant in this workshop series, do you have any other points or concerns you would like to share?



# Upcoming Rulemaking

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- **Considering release of either Policy Statement or change of rules to provide guidance on CCA related issues**
  - **Issues being identified through workshop series and future discussions**
- **Allows Commissioners to have substantive discussions with each other regarding guidance to be issued through this rulemaking**
- **Future process or schedule for rulemaking have not been determined yet, waiting on receipt of public comments**





**Thank you for joining!**

