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Please post the below email to the docket for 231044

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Sent: Wednesday, March 27, 2024 8:48 PM
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Cc: Creswell, Joel (ECY) <jcre461@ECY.WA.GOV>; Hancock, Scott (ECY) <scoh461@ECY.WA.GOV>; Hayes, Andrew (ECY) <ahay461@ECY.WA.GOV>
Subject: Q&A information on cap-and-invest compliance for natural gas utilities

Hello Commissioners Danner, Rendahl, and Doumit,

I'm Derek Nixon, the supervisor of the cap-and-invest auctions and market section and I'll be speaking tomorrow on the cap-and-invest program for item A3, Docket UG-231044 for Avista. I'll have Scott Hancock who formerly worked at the UTC with me, so that we can be available for any questions you might have of Ecology on the cap-and-invest program. I plan to give a very short overview on the mechanics of how the cap-and-invest market pertains to natural gas utilities and free allowance allocation, and some of the available ways that utilities can set themselves up for success in program participation.

We want to be available strictly as a resource for you in this (and future) open meetings where you might need input on how the cap-and-invest program interacts with utility operations. In advance of the meeting, we wanted to send some Q&A information we put together on compliance with the program that could be useful for you in tomorrow's meeting. A big shout out to Scott who did much of the heavy lifting in putting the Q&A together on very short notice.

Q. When does a covered entity know what its compliance obligations are for a given year's emissions?

A. At the end of a year, entities work with 3rd party verifiers to double check their emissions calculations. For example, entities are currently calculating and will verify their 2023 emissions. Then Ecology will do a further review later this year before entities turn in allowances to meet their first compliance obligation (see next question).

Q. How and when does a covered entity meet its compliance obligations? Is there a single event, or more than one event?

A. The entity submits eligible compliance instruments for a given year at two separate compliance events: one in the year following the year in which the emissions occurred, and another event following the end of the four-year compliance period. After each year within a compliance period, 30% of the compliance obligation from that year is due; at the end of the compliance period, the remaining 70% is due. For 2023 covered emissions, the first event occurs Nov 1, 2024, and the latter event occurs Nov 1, 2027.

Q. Are the requirements for compliance instruments at these events the same?

A. The requirements for the first event is stricter. Allowances submitted for the first compliance event – where 30% of the compliance obligation is due – must be of the same vintage as the year the obligation was incurred, or an earlier vintage. Allowances submitted for the latter compliance event, where the remaining 70% of the compliance obligation is due, can be of any vintage from the compliance period, or any earlier compliance period. In other words, the vintage of an allowance is the *first year* for which it can be used.

Q. For 2023 covered emissions, 30% of the compliance obligation is due November 1, 2024. What vintages of allowances are eligible for that scenario?

A. The only vintaged allowances eligible for this event are 2023 vintage allowances, because 2023 is the year in which the obligation was incurred, and because there are no earlier vintage of allowances.

Q. For the remaining 70% of a 2023 compliance obligation, it is due in November 2027. What vintages of allowances are eligible for that event?

A. Vintaged allowances eligible for that event are any vintage from the compliance period. Because the compliance period is from 2023 through 2026, allowances of a 2023, 2024, 2025, or 2026 vintage can be submitted.

Q. Are these vintages of allowances available for market participants currently?

A. In 2023, we held four auctions at which 2023 vintage allowances were available, and two of those auctions also had 2026 vintage allowances available. Some entities, such as natural gas utilities, electric utilities, and emissions intensive, trade exposed industries receive "no-cost" allowances, which are directly allocated to the entities. Those allowances are vintaged as well. In 2023, eligible entities which had completed registration in the program received the 2023 vintage allowances they were entitled to. We have since allocated 2024 vintage allowances to eligible entities. There are currently no 2025 vintage allowances in circulation.

Q. When you held the auctions in 2023, did the prices vary between the auctions? Are 2023 vintage allowances awarded at the same price to bidders as the 2026 vintage allowances?

A. Auction settlement prices vary between each auction, and when both "current" and "future" vintage allowances are offered, those vintages have separate settlement prices.

Q. Are there limits to how many allowances bidders can win at auction?

A. Yes, there are three primary constraints. The first is the size of the bid guarantee; this is an amount of money auction participants place in the custody of a third-party financial services provider prior to the auction. Bidders cannot spend more than their bid guarantee.

The second limit is a holding limit. This can vary from entity to entity and depends primarily on what their holdings are prior to the auction.

The third limit is an auction purchase limit. In 2023, the auction purchase limit for covered entities was 10% of the auction supply, and for general market participants was 4% of the auction supply.

Q. Which vintages of allowances tend to cost more?

A. The pattern we have seen is that later vintages of allowances tend to cost less. In 2023, the 2023 vintage allowances sold at auction for an average price of $55.50. The 2026 vintage allowances sold at auction in 2023 sold for an average price of $38.06. A similar spread is seen in derivative markets for these compliance instruments.

Q. When were the 2026 vintage allowances sold at auction?

A. Auction #2 and Auction #4 featured 2026 vintage allowances. They occurred in May and November, respectively.

Best,

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