Multi-year Compliance with Annual Surplus Accounting

Joint Utility Compromise Compliance Proposal

August 12, 2021

This proposal is for discussion purposes only and does not cede the joint utilities' previous legal interpretations of CETA

Background & Process

- Over the past several months, the joint utilities have been working with stakeholders in an attempt to agree upon a compliance framework that addresses all stakeholder issues

- While a complete compromise was not reached, the joint utilities believe that significant directional progress was made and that its compromise proposal strikes an appropriate balance across stakeholder perspectives

What goals did the joint utilities hope to achieve with a compromise proposal?

- **The joint utilities' compliance framework strikes a balance to:**
  - Achieve the goals and intent of CETA to transition the state's electricity supply to 100% carbon neutral by 2030 and 100% carbon free by 2045
  - Drive transformational change in the utility industry
  - Maintain affordability for customers
  - Recognize the nexus between energy production and energy used for retail load service
  - Provide flexibility for utilities to reliably meet customer needs and meet CETA compliance while also managing increasing generation, load variability needs
  - Allow utilities to continue participating in and realizing the environmental and cost benefits of bilateral and organized wholesale energy markets

What are the elements of the joint utility compromise proposal?

- **Core compliance methodology:**
  - Eligible generation = retail load over the four-year compliance period; eligible energy must be acquired together with its environmental attribute
- **Establishes a nexus between energy production and energy used to serve retail load by requiring that energy must be deliverable to Washington**
- **Strong double counting protections in place**
  - Specified source sales are excluded from both compliance and alternative compliance
- **New element: Establishes a limit to eligible generation based on annual retail load totals to incorporate a connection between energy production and energy used for retail load service, incorporating elements of the "financial accounting" proposal made last fall by Climate Solutions and NWEC**

What are the elements of the joint utility compromise proposal?

- The joint utility proposal has evolved over time:

Core compliance methodology:	Eligible generation = retail load over the four-year compliance period; energy must be acquired with the environmental attribute
Relationship between generated energy and deliverability to load:	Eligible generation must be provided at one of several specified points of delivery
Concerns regarding double counting of environmental attributes:	Double counting protections, including language excluding specified sales from any compliance benefit
Connection between eligible generation and load service	New element: An annual limit to eligible generation aligning with retail load totals

How is the Annual Surplus Accounting applied?

- Any renewable or non-emitting generation that is surplus on an annual basis to the utility's retail electric load would not be eligible for primary compliance
- RECs associated with that surplus could still be used for alternative compliance
- Utilities would file their four-year compliance reports after the compliance period
  - Compliance report would contemplate each annual period's retail load totals and eligible generation from that annual period

Why include an annual surplus accounting component?

- Utilities heard positions from other stakeholders that CETA's "use" requirement could be demonstrated by a utility claiming final ownership of electricity
- Utilities continue to believe that tracking across more granular timeframes and/or bilateral source-to-sink energy transaction tracking creates significant technical difficulties, drives up costs unnecessarily, and effectively precludes participation in current regional markets
- The utilities' proposal strikes a balance by providing some tools to manage increasing load and generation variability while also creating a nexus between energy production and retail load service

What are the implications of this approach?

- Limits utility's ability to apply annual surpluses to primary compliance
  - Utilities cannot use surplus generation from one year to augment a shortfall of eligible generation in another year
  - However, it does allow utilities to smooth out shortfalls that may occur on a monthly basis throughout a single year
- Drives change in utility portfolio planning
  - Will provide compliance incentive to shift utility planning toward portfolios that meet their compliance needs annually
- Promotes continued participation in bilateral and organized markets in the West
  - The annual time-step lifts compliance examination out of the operational time horizon, allowing utilities to participate and, most importantly, derive value from western markets
  - Provides room for utilities to influence market development without being unduly penalized for participating by mandating complex and granular and/or source-to-sink accounting

Speaking of markets…

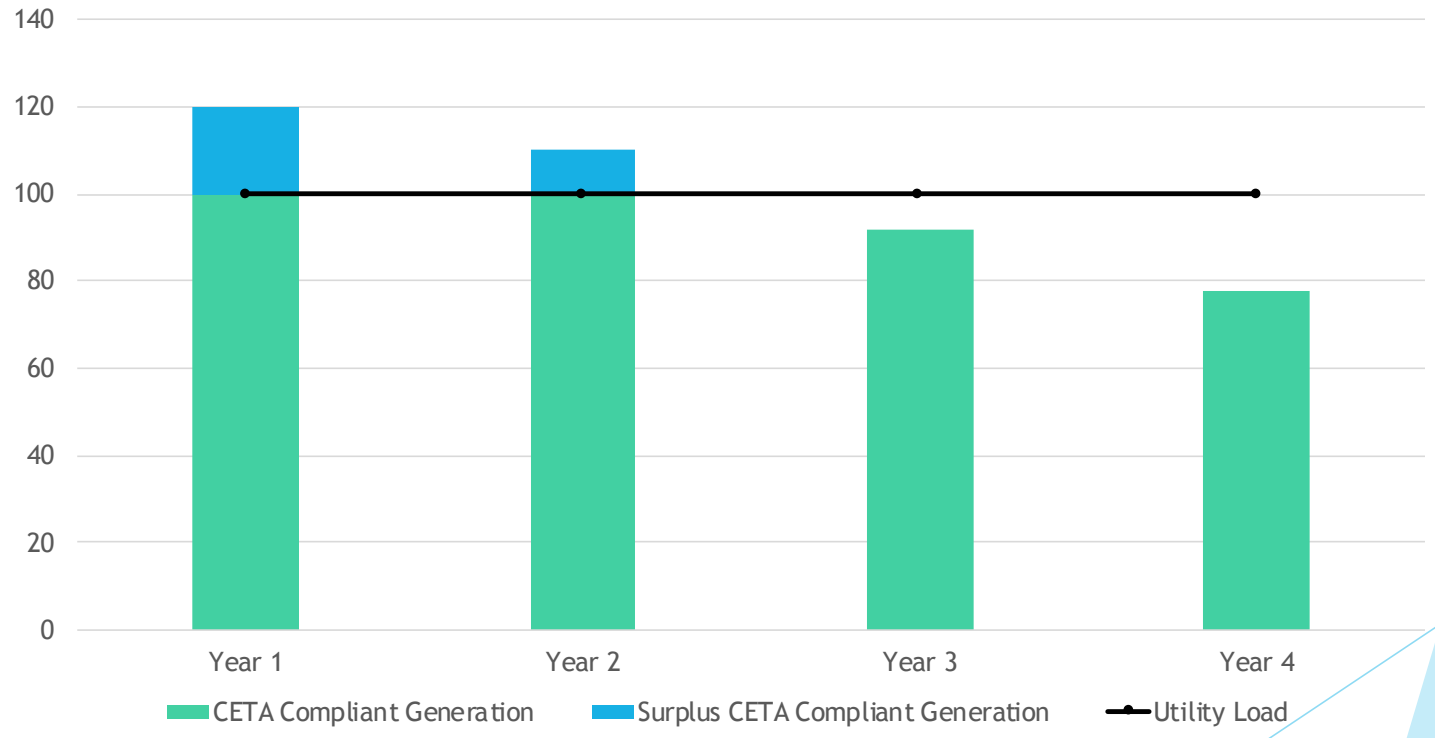
- As part of this compromise, utilities would commit to further regional discussions regarding the evolution of markets and state clean energy policies
- Market participation and development in the West will continue to be a critical pathway to ensuring and promoting the development and utilization of clean energy resources, and their importance will only increase with time
- Utilities recognize that market evolution is a reality and are open to continuing discussions around how markets can better facilitate the transition to a fully clean economy while continuing to provide value to their customers

Further implications of the joint utility compromise proposal…

- Maintains the environmental value of eligible resources
  - By establishing surplus accounting at an annual level, within-year flexibility of variable eligible resources is preserved (as well as other variable resources)
  - Limits utility risk of "losing" the environmental and compliance benefit of eligible generation in which its customers have invested

- Supports system reliability and adequacy
  - By keeping surplus accounting at an annual basis, utilities are able to enact reliability and adequacy plans on an operational basis that are consistent with compliance obligations

How would the proposal work in practice? (Example 1)



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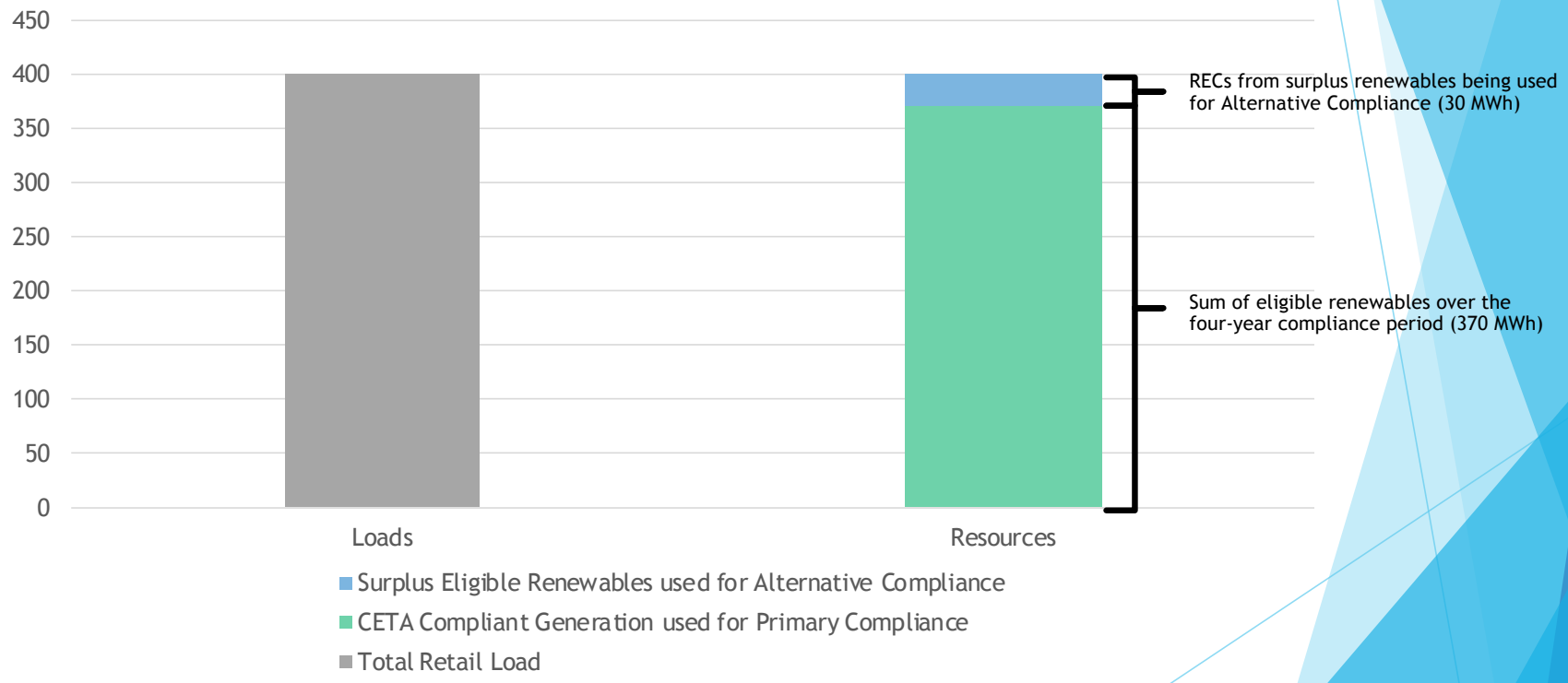
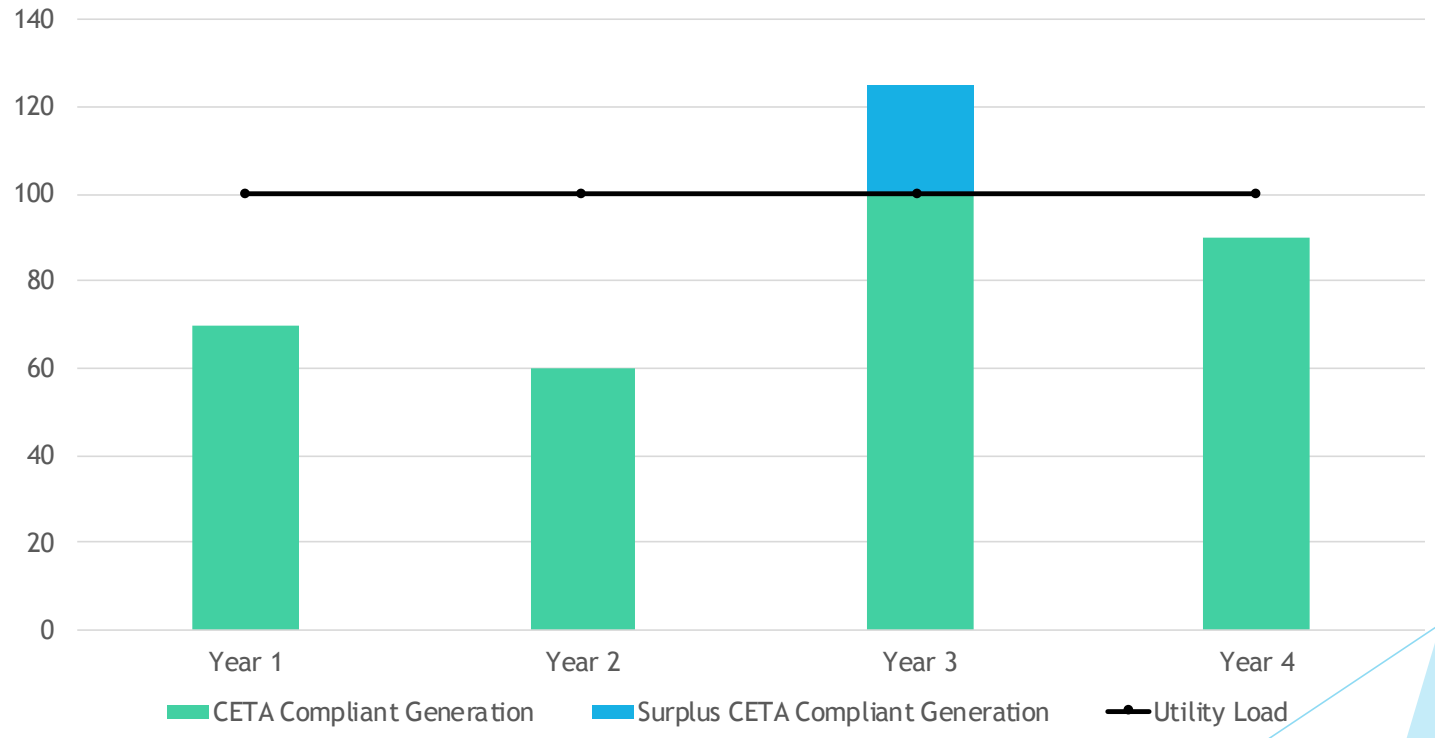


How would the proposal work in practice? (Example 2)



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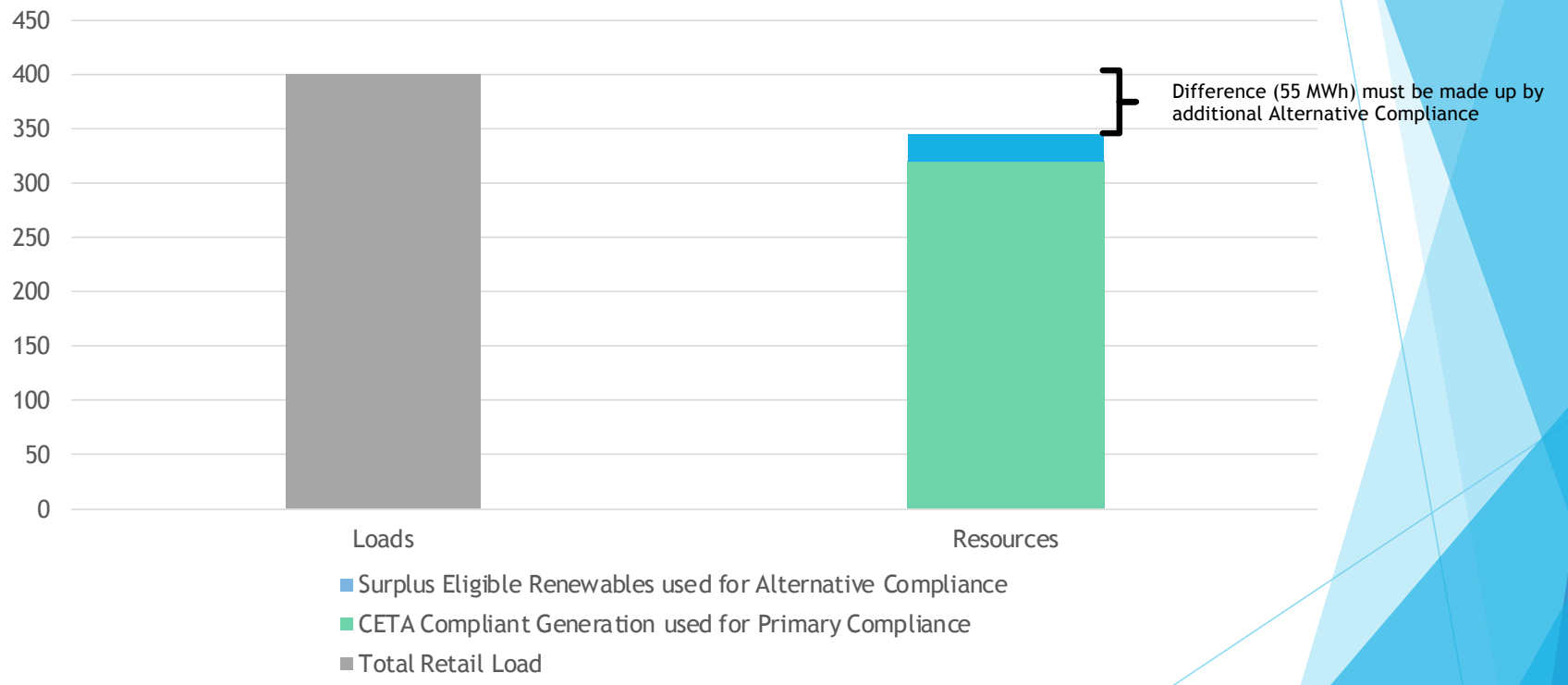

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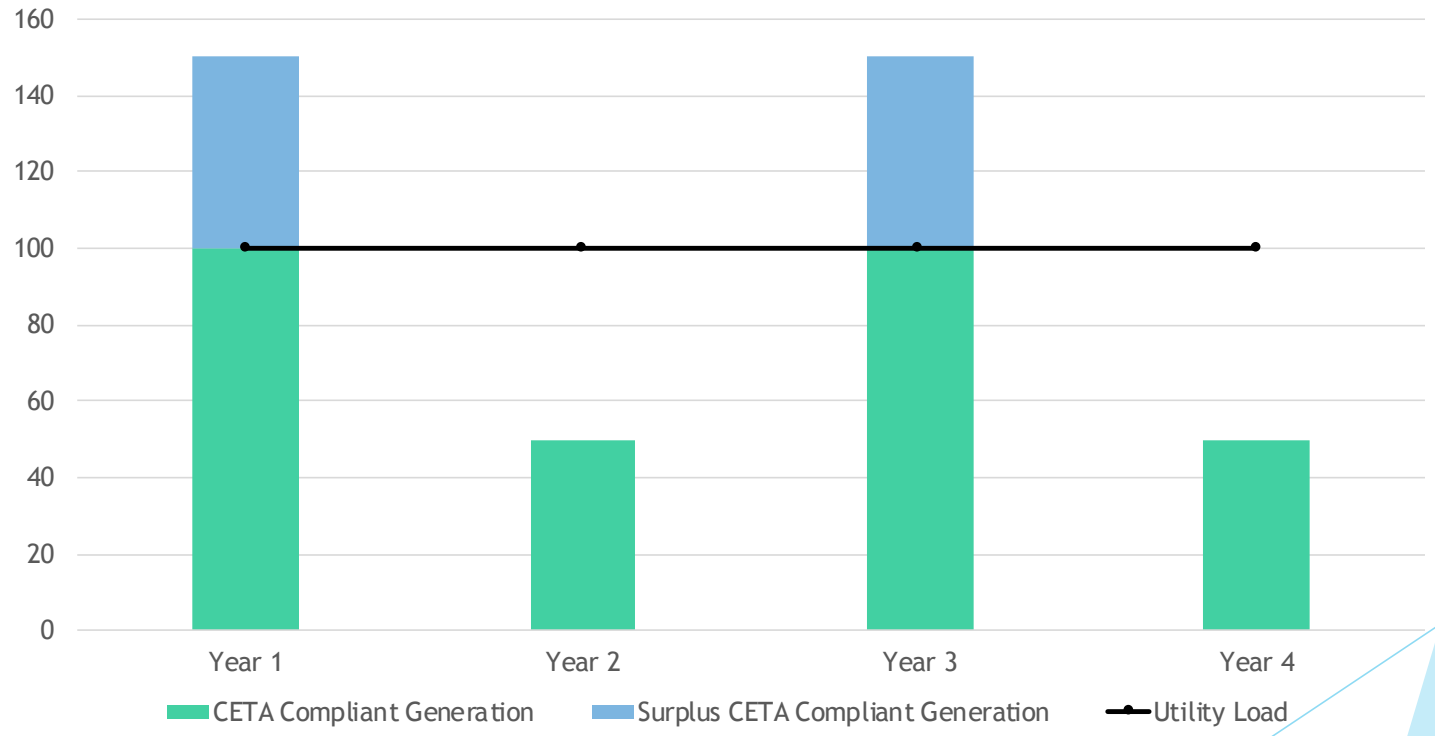

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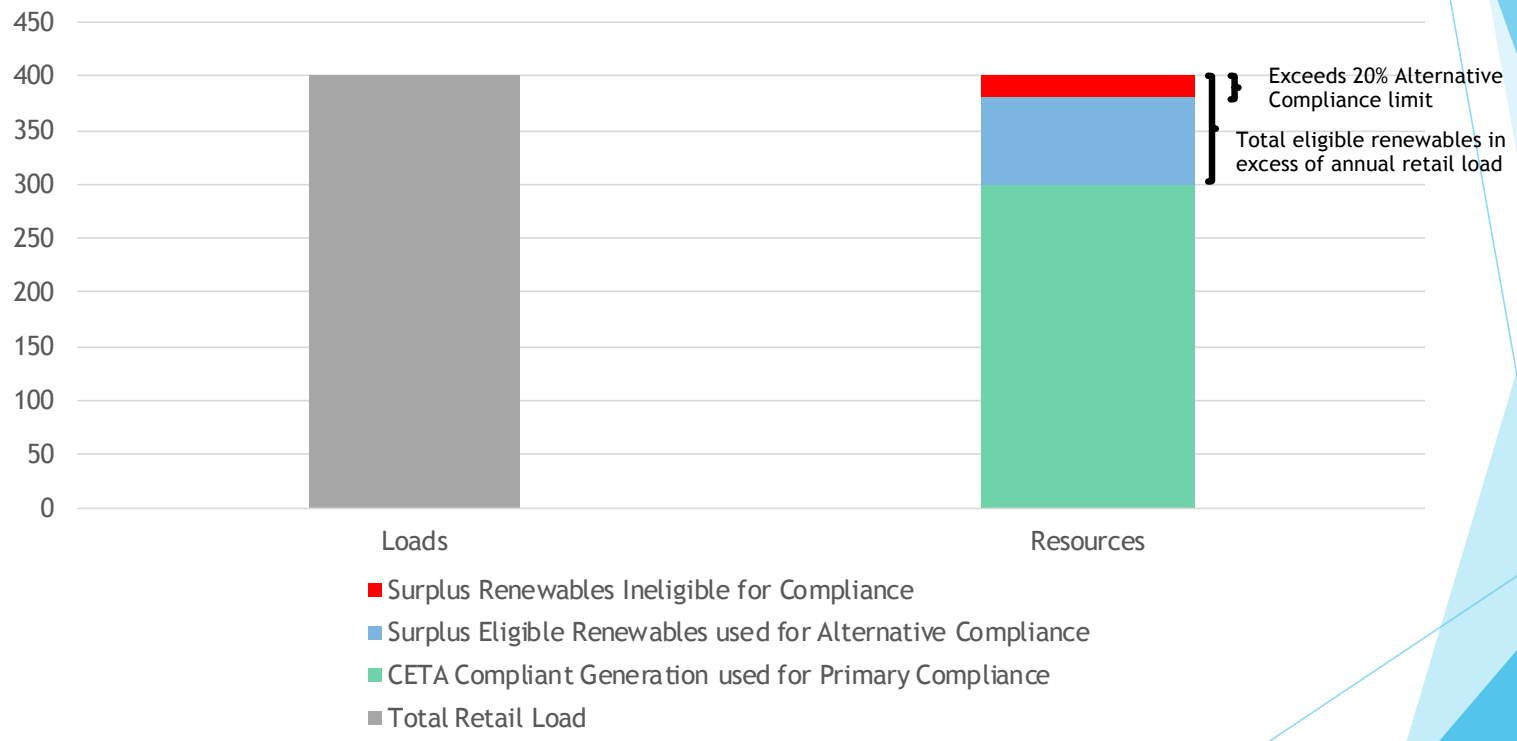

Other considerations

- Utility proposal uses Total Retail Load as the compliance requirement
  - Line and energy storage losses are not included in the calculation of compliance in the joint utility proposal
    - The statute defines the compliance obligation based on retail electric load, verified by the retirement of RECs or attestations of non-emitting generation. The statutory definition excludes line and energy storage losses in the compliance requirement.
    - Western clean energy requirements track RECs based on generation at the source.
- Harmonization with other compliance requirements
  - While utilities do not see our proposal conflicting with other state compliance requirements, we encourage further discussion to ensure that CETA harmonizes with other state programs

Benefits of the Compromise Proposal

- Achieve the goals and intent of CETA to transition the state's electricity supply to 100% carbon neutral by 2030 and 100% carbon free by 2045
- Drive transformational change in the utility industry
- Maintain affordability for customers
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Questions?

Appendix

Double Counting

- WREGIS tracking prevents the use of a REC for more than one purpose
- Currently, the sole manner in which double-counting of non-power attributes *may* occur is if non-emitting energy is "claimed" as non-emitting in a jurisdiction or context outside of Washington AND the associated REC is separately used for CETA compliance.
- **Problem Scenario 1**: If a utility sells energy to California that it classifies as "non-emitting", either bilaterally or through the energy imbalance market, and uses the associated REC for CETA compliance
  - **Solution**: Utility will be required to prove that the RECs will not be counted for CETA compliance – this can be done through WREGIS documentation, review of contracts, or compliance reports showing that no specified sales were reported to California
    - For EIM, documentation could include EIM settlements or documentation that no specified sales were reported to California
- **Problem Scenario 2**: if a utility purchases an unbundled REC for CETA compliance and the associated energy is sold by a third-party to California as non-emitting under its cap-and-trade program
  - **Solution**: Utilities can require sellers of unbundled RECs to contractually commit to not sell the underlying energy to any entity or state that may claim it as non-emitting

How would the proposal work in practice? (Example 1)

Year	Load	CETA-Compliant Generation	Eligibility for Full Compliance	Eligibility for Alternative Compliance
Year 1	100 MWhs	120 MWhs	100 MWhs	20 MWhs
Year 2	100 MWhs	110 MWhs	100 MWhs	10 MWhs
Year 3	100 MWhs	72 MWhs	72 MWhs	N/A
Year 4	100 MWhs	98 MWhs	98 MWhs	N/A
Compliance Position	400 MWhs		370 MWh (92.5%)	30 MWhs (7.5%)

How would the proposal work in practice? (Example 2)

Year	Load	CETA-Compliant Generation	Eligibility for Full Compliance	Eligibility for Alternative Compliance
Year 1	100 MWhs	70 MWhs	70 MWhs	N/A
Year 2	100 MWhs	60 MWhs	60 MWhs	N/A
Year 3	100 MWhs	125 MWhs	100 MWhs	25 MWhs
Year 4	100 MWhs	90 MWhs	90 MWhs	N/A
Compliance Position	400 MWhs		320 MWhs (80%)	25 MWhs (6.25%)*

*55 MWh of additional alternative compliance needed

How would the proposal work in practice? (Example 3)

Year	Load	CETA-Compliant Generation	Eligibility for Full Compliance	Eligibility for Alternative Compliance
Year 1	100 MWhs	150 MWhs	100 MWhs	50 MWhs
Year 2	100 MWhs	50 MWhs	50 MWhs	N/A
Year 3	100 MWhs	150 MWhs	100 MWhs	50 MWhs
Year 4	100 MWhs	50 MWhs	50 MWhs	N/A
Compliance Position	400 MWhs		300 MWh (75%)*	While the sum is 100 MWh, only 80 MWh is eligible for alternative compliance (80 MWh = 20% of the utility's compliance obligation)

*Utility would be 5% short of CETA compliance because it has not achieved the 80% threshold.