

# Tacoma Power

## Climate Commitment Act (CCA) Briefing for Public Utility Board

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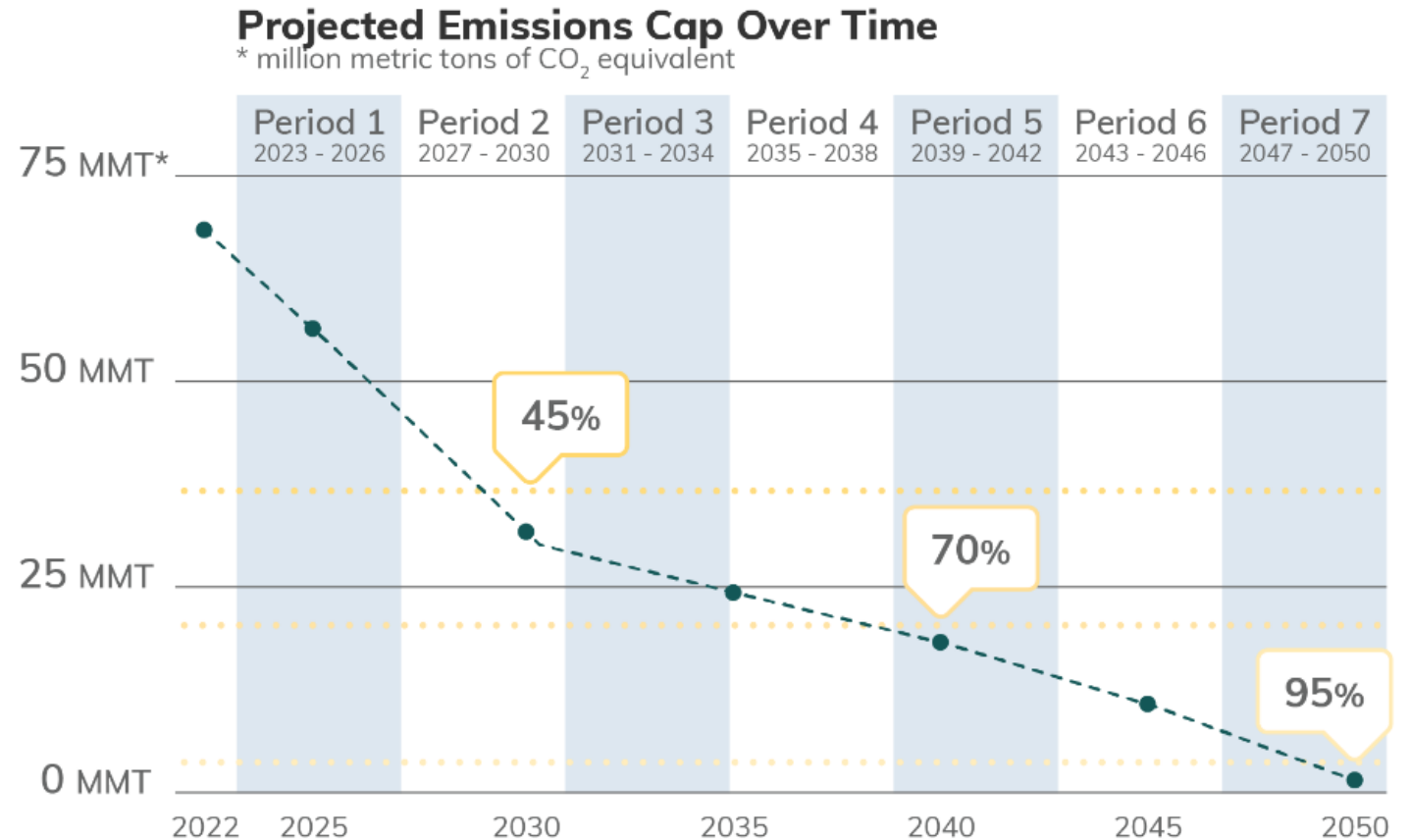


## CCA Overview

# The Climate Commitment Act (CCA)

## Washington Climate Commitment Act (RCW 70A.65, WAC 173-446)

- ✓ In 2021, the Washington Legislature passed the Climate Commitment Act (or CCA) which establishes a market-based program to reduce carbon pollution and achieve the greenhouse gas limits set in state law.
- ✓ The program started January 2023.
- ✓ The cap-and-invest program sets a limit, or cap, on overall carbon emissions in the state and requires businesses to obtain allowances equal to their covered greenhouse gas emissions.
- ✓ Allowances can be obtained through quarterly auctions hosted by the Department of Ecology.
- ✓ The cap will be reduced over time to ensure Washington achieves its 2030, 2040, and 2050 emissions-reduction commitments, which means we'll issue fewer emissions allowances each year.



## CCA Overview

# CCA Mechanics for Electric Utilities



- Even though we have zero-carbon generation in excess of our load, we incur CCA-driven costs every time we make “unspecified” purchases.
- Examples include Energy Imbalance Market (EIM) purchases and bilateral purchases.

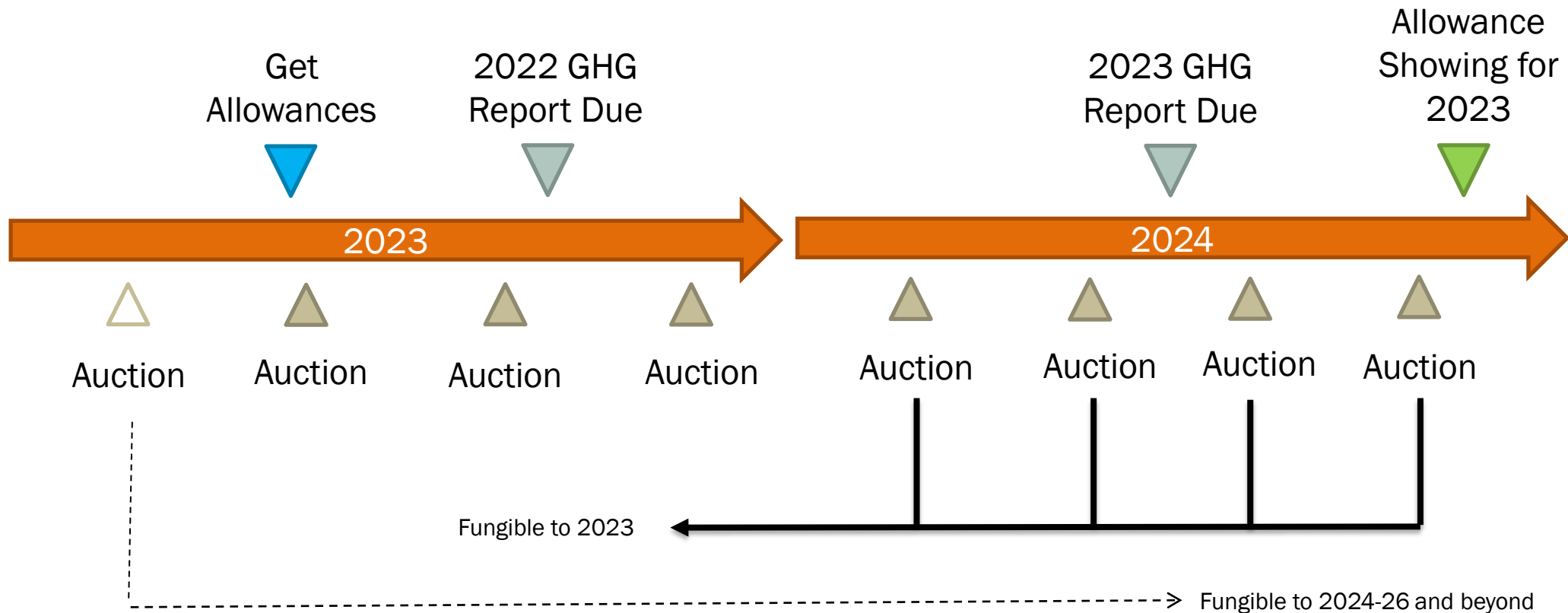
- We will be allocated no-cost allowances annually. These allowances are intended to mitigate the cost burden created by the CCA.

- If we do not receive sufficient no-cost allowances to cover emissions, we may need to buy additional allowances at an auction.
- If we have surplus allowances, we may be able sell them at auction or bank them for use in the future.

- We must progressively cover emissions over a four-year compliance period.
- Failure to procure sufficient allowances results in a penalty x4 of the allowance price.

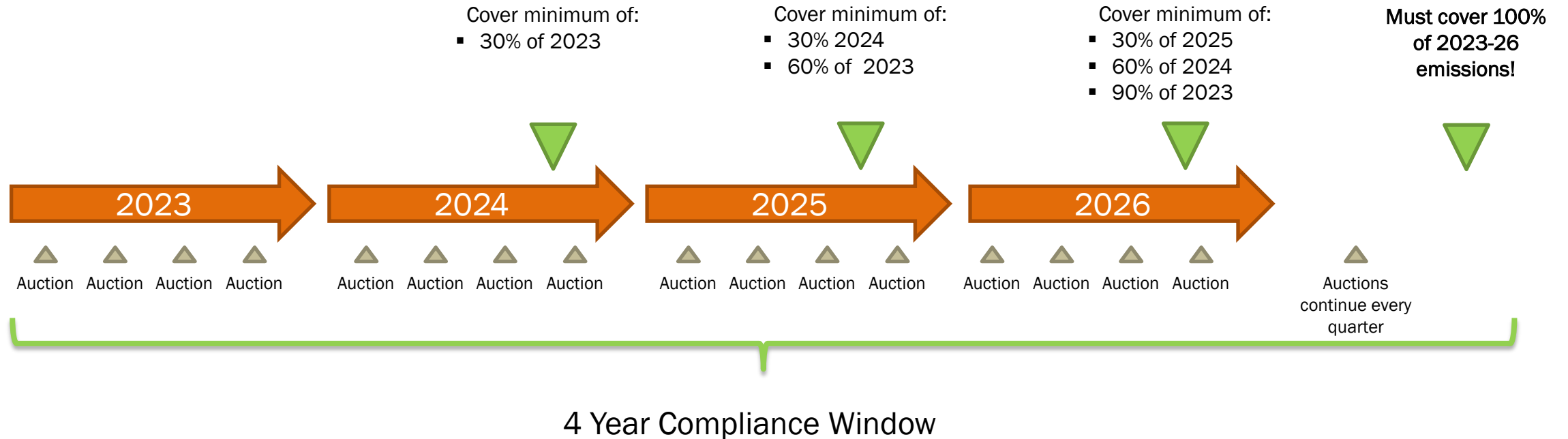
CCA Overview

# Compliance Milestones: 2023 & 2024



## CCA Overview

# Four-Year Compliance Window

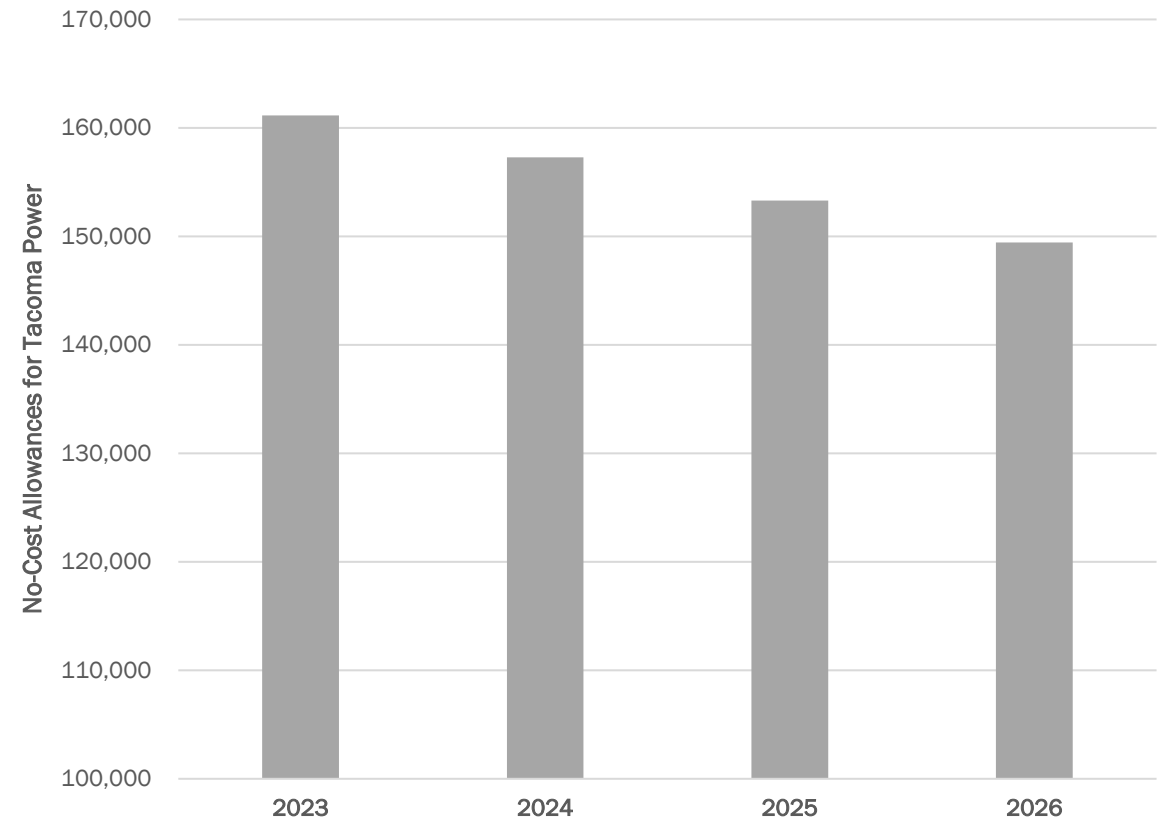


## CCA Overview

# Allowance Allocation

## Updated Forecast

- ✓ We received our initial allowance allocation on April 24th
- ✓ We are still assessing if this is enough to cover our expected emissions
- ✓ It is possible that we will not have enough



## CCA Overview

# True-Up: Key Provision

### WAC 173-446-230 Distribution of allowances to electric utilities

- (2)(g) *The initial allocation of allowances will be adjusted as necessary to account for any differential between the applicable reported greenhouse gas emissions for the prior years for which reporting data are available and verified in accordance with chapter 173-441 WAC and the number of allowances that were allocated for the prior year through this process.*

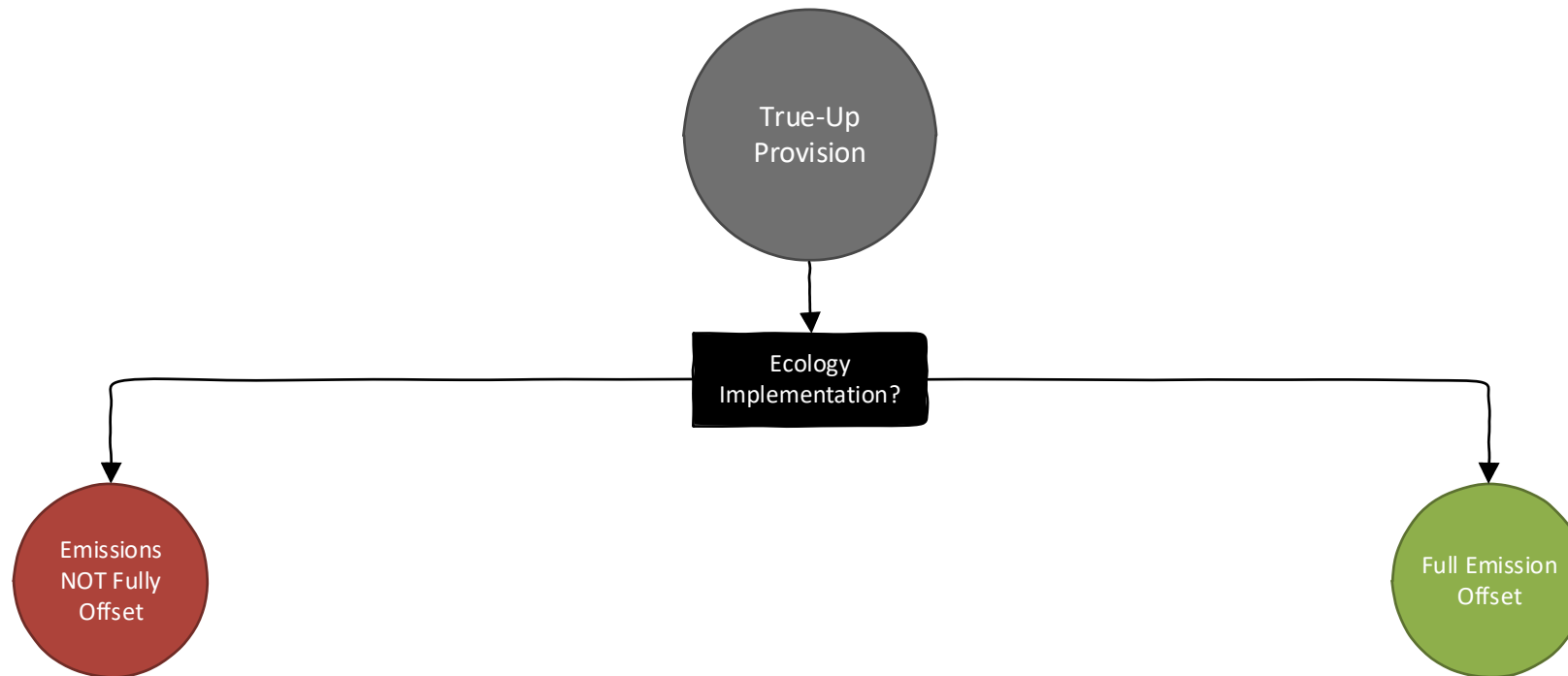


### Lack of Clarity

- It is not clear how this provision will be applied.
- Application could have a tremendous impact on Tacoma Power's operations – *particularly if our allowance allocation is insufficient to cover our emissions liability.*

## CCA Overview

# Two Possible States of the World



- Potential penalty for purchases of unspecified energy
- Possible incentive to limit EIM purchases; other “battery-like service” purchases
- Potentially incompatible with centralized markets
- Likely price premiums for surplus sales

- Unwinds the law for electric utilities
- Minimal impact on EIM, future centralized markets
- Minimal impact to wholesale market prices



## CCA Overview

# When will we know how the true-up functions?

## November 2024

- ✓ We may not fully understand how the true-up will function until November 2024.
- ✓ Hopefully the Department of Ecology will be able to provide clarification much sooner – we will continue to ask Ecology.

## CCA Overview

# CCA Uncertainty is Impacting Operations & Trading

## Hedging Transactions

- ✓ We are limiting long-term power sales intended to hedge risk to ensure we do not have to purchase under low hydrological conditions.

## Renewable Integration

- ✓ There is solar and wind over-supply during certain hours of the day – resulting in low wholesale market prices.
- ✓ We have historically operated our system like a large battery – we buy excess wind & solar generation, store the water, and then generate in higher price periods - when loads are high and/or when wind & solar aren't generating as much.
- ✓ This operation provides environmental and reliability benefits to the region **and** creates financial benefits for Tacoma Power customers.
- ✓ The CCA causes us to be **more selective** about these types of transactions – we try to ensure there is sufficient difference between the purchase price and sale price to account for any emissions liability.

## CCA Overview

# Update to Forecast?

## Updated Forecast

- ✓ We are still assessing if the initial allocation is sufficient to cover our need.
- ✓ Ecology is bound by law to consider a regulator- or board-approved forecast and adjust our allowance allocation.
- ✓ The forecast must be ratified by the Public Utility Board before we send to Ecology.
- ✓ If we determine that the no-cost allowances Ecology has allocated will be insufficient, we will likely develop and present an updated forecast at a future Public Utility Board meeting.

*Thank you!*