

Tacoma Power

Climate Commitment Act (CCA) Briefing for Public Utility Board and Government Performance and Finance Committee

August 15, 2023

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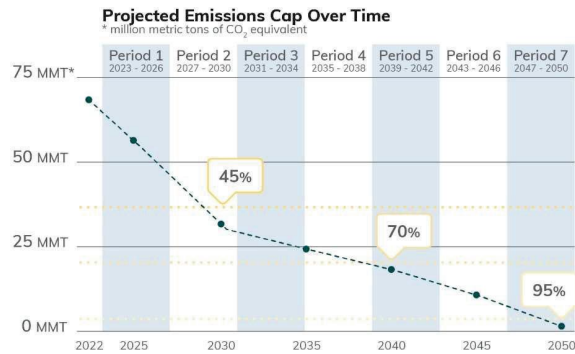


CCA Overview

The Climate Commitment Act (CCA)

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

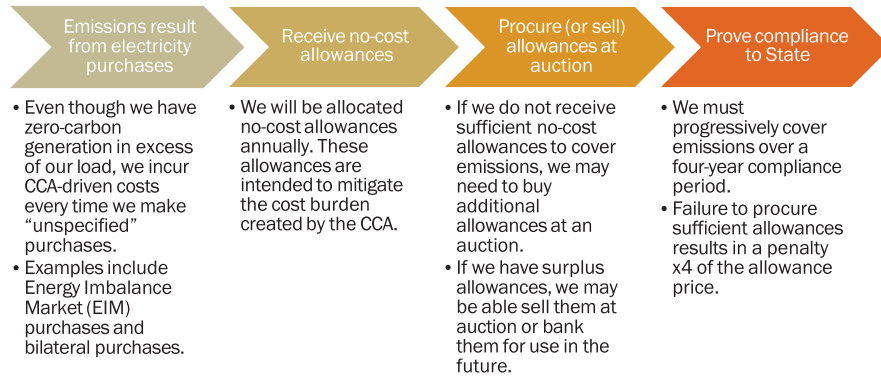
- ✓ In 2021, the Washington Legislature passed the Climate Commitment Act (or CCA) which establishes a market-based program to reduce carbon pollution and achieve the greenhouse gas limits set in state law.
- ✓ The program started January 2023.
- ✓ The cap-and-invest program sets a limit, or cap, on 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.



Cap-and-Invest - Washington State Department of Ecology

CCA Overview

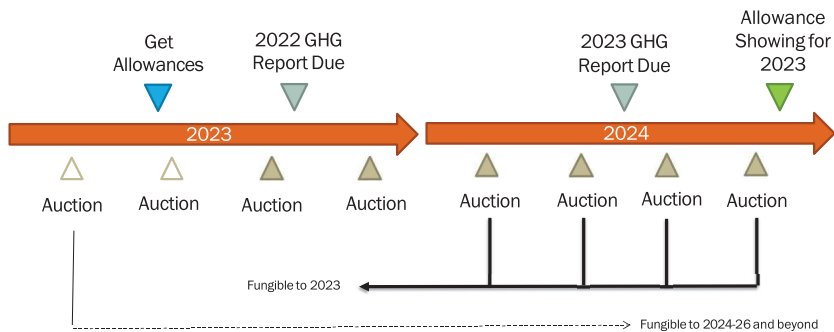
CCA Mechanics for Electric Utilities



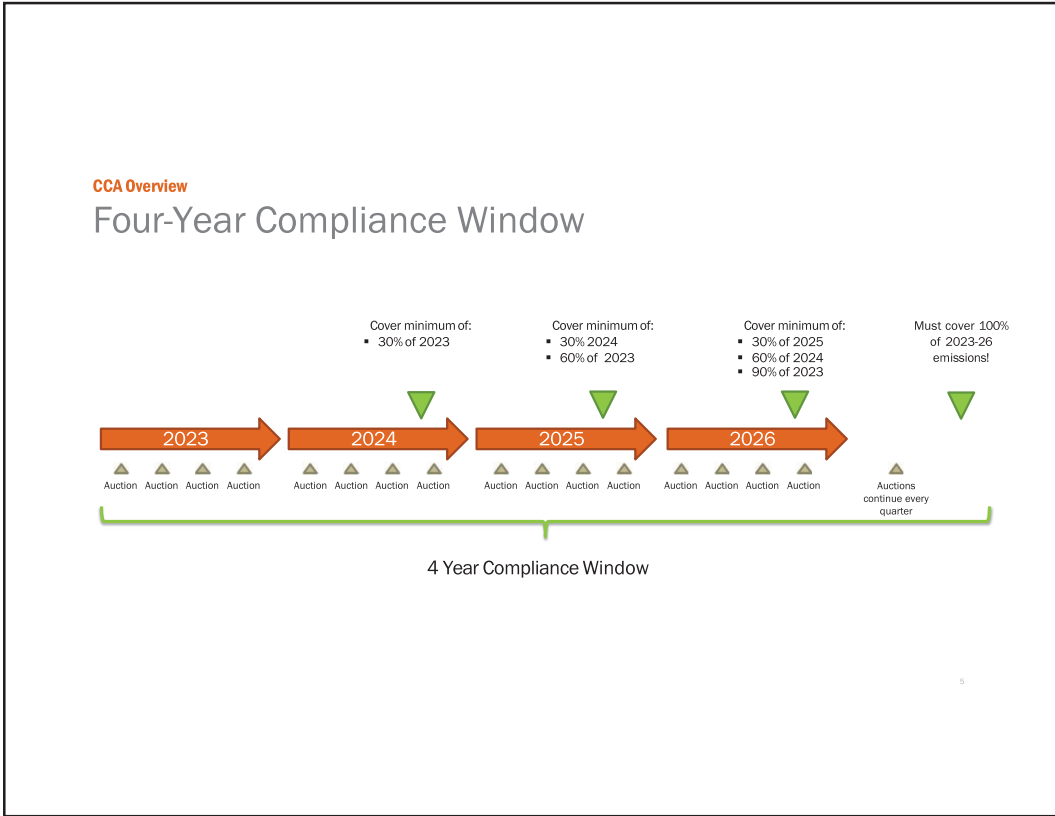
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CCA Overview

Compliance Milestones: 2023 & 2024



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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

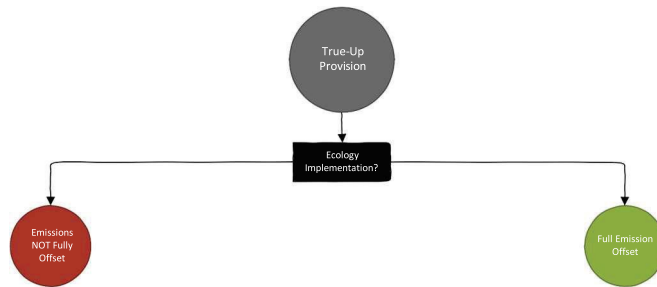
- It is not clear how this provision will be applied.
- Application could have a tremendous impact on Tacoma Power's operations - particularly if our allowance allocation is insufficient to cover our emissions liability.

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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

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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.

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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.

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CCA Overview

Update to Forecast?

Updated Forecast

- ✓ Our initial assessment indicates that Ecology's no-cost allocation schedule may be sufficient to cover our projected allowance need.
- ✓ However, this assessment is based on average load and generation conditions and is reflective of our current understanding of an ambiguous regulatory landscape.
- ✓ Reporting for calendar year 2022 is due to Ecology on September 1, 2023.
- ✓ We will have a better understanding of current and future CCA compliance obligations when reporting efforts have been completed.

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Thank you!

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