

# I-732

## Carbon Pollution Tax

*Presentation delivered to PUD Commissioners and at the May 2, 2016, regular public Commission meeting.*



# I-732 Background

## **Why the PUD is providing customers with information related to the ballot initiative:**

- Clallam PUD No. 1 is a not-for-profit, community-owned utility that must be responsive to our customer-owners, ensuring that their needs are met and they are informed of activities that may impact costs and delivery of services.
- In the interest of keeping the customer-owners of the PUD informed of policy impacts on utility operations and services, Clallam PUD recognizes the importance of providing our customer-owners with information related to the impacts of initiative I-732, and the work being done by the PUD on behalf of customer-owners to ensure good public policy outcomes related to carbon reduction measures.

# I-732 Background

## What is I-732?

- I-732 is an initiative to the legislature with the intent of reducing carbon by imposing a tax on carbon emissions from the generation of electricity used by consumers in Washington State.
- The tax revenue would fund a 1% reduction in the state sales tax, a reduction in the B&O tax on manufacturing and provide funding for the working families sales tax exemption.

# I-732 – The Process

## **What is the process the initiative goes through?**

- The initiative's first stop was in the legislature. The legislature this past session had the option to either:
  - Adopt the initiative as proposed, in which case it would have become law without a vote of the people;
  - Reject or refuse to act on the initiative, in which case the initiative must be placed on the ballot at the next state general election (November 2016); or
  - Approve an alternative to the proposed initiative, in which case both the original proposal and the Legislature's alternative would be placed on the ballot at the next state general election (November 2016).
- The legislation did not act on the initiative so it will go to the November 2016 ballot in its original form for voters to decide.

# I-732 – The Tax

## **How much is the carbon tax?**

- The tax would start in 2017 at \$15 per ton of carbon emissions, rise to \$25 in 2018 and increase by 3.5% plus inflation annually until it reaches \$100 per ton in 2016 dollars.

# I-732 – The Tax

## **How would the tax be applied to our electricity?**

- The initiative would affect public utility districts, including Clallam PUD No. 1, by applying the carbon tax to certain resources used to serve customers.
- The tax is imposed on the consumer of electricity. For Clallam PUD No. 1 that means it is imposed on PUD customers using electricity. The Initiative requires the seller of that electricity (the PUD) to collect the tax from the consumer (the PUD customer).
  - However, the PUD is liable to the state for payment of the tax. Ultimately the PUD would have to ensure the taxes are collected and paid to the state.

# I-732 – The Impact to Clallam PUD

## How would it impact our PUD?

- It would impact what we pay for electricity. The PUD projects the cost of power would increase:
  - July 1, 2017-July 1, 2018 (when the tax is \$15 per ton) between \$500,000 and \$1,800,000.
  - When the tax rises to \$25 in 2018 the cost is projected to range between \$900,000 and \$3,000,000. The tax would continue to go up from there.
  - In 2025-2026 the tax liability is projected to be between \$1,200,000 and \$4,100,000.

# I-732 – The Impact to Clallam PUD

- The reason for the cost increase is because the initiative assigns a carbon liability for market purchases of electricity made by the Bonneville Power Administration and included in the electricity the PUD buys at-cost from BPA to serve customers.
  - Market purchases are made when there is a need for additional electricity, usually in times of lower hydropower generation.
  - Market purchases come from a pool of unspecified electricity resources (everything from wind and solar to natural gas). Unspecified means the source of electricity isn't identified (think grab-bag of electricity).
  - The initiative would assume a certain level of carbon emissions from these unspecified resources regardless of what actually is in the mix, and would apply the tax according to the assumed emissions.
  - The initiative supporters, Carbon Wa, testified before the House that the intent was to assign a coal footprint to these unspecified resources; so the tax would be applied as if it were coal generation. The cost impacts we shared earlier related to the tax liability for BPA market purchases are based on this assumption.
  - The tax would be applied to the market purchases made by BPA. BPA would pass along the cost to the PUD and ultimately consumers.
  - The cost is projected to vary depending on how much hydropower is available and the need for market purchases. We are projecting the tax would be imposed on between 4% and 14% of the electricity we purchase from BPA.

# Isn't Clallam's Electricity Clean?

## **Carbon emissions related to the PUD's electricity resources. How clean is our electricity?**

- Our PUD works to provide affordable, reliable and clean energy to the community. Overall, PUDs in Washington provide 95% clean resources through their reliance on hydropower. Clallam County PUD No. 1 serves our community with 98+% clean (carbon free) resources, mainly clean, renewable hydropower.
- While the vast majority of the electricity used to serve PUD customers is carbon free, again, the way the initiative is written, it would assign a carbon liability to a portion of PUD resources that are purchased from a pool of electricity made up of a variety of resources (everything from wind and solar to natural gas).

# I-732 Is Not Alone

## **How would I-732 relate to other carbon reduction policies in Washington?**

- There are two carbon reduction policies currently being developed in Washington for implementation that would likely impact PUD electricity resources. It is unknown exactly how the policies being developed would correspond with I-732 should it be enacted.
- The state is developing a “Clean Power Plan” to meet federal carbon emissions reduction requirements for electricity generation. The Clean Power Plan is due to the Environmental Protection Agency by September of 2016 but the state may request an extension until 2028. Compliance would start in 2022. The plan is in draft form.
- In addition, the state is developing a “Clean Air Rule” intended to help the state meet carbon reduction goals set by the 2008 legislature. Recently, the State Department of Ecology withdrew a draft plan after receiving feedback from numerous stakeholders and is scheduled to release a draft plan in the late Spring.

# Clallam's Approach

## **What has the PUDs approach been to evaluating carbon reduction policies?**

- Our PUD has communicated through official channels in the legislative and rule making processes principals that we believe are important in consideration of any carbon reduction policies. We believe it is essential that any carbon reduction efforts to be harmonized under the following principles.
  - They are complementary and not additive. We should avoid enacting conflicting or redundant policies that may increase costs without a corresponding reduction in carbon emissions.
  - They should use least cost principles. We should utilize the most cost effective method for achieve carbon reduction goals.
  - They ensure reliability of our electrical grid.
  - They provide value to our communities.

# Next Steps

## What are the next steps?

- The PUD Board of Commissioners may hold a public meeting on May 23<sup>rd</sup> at it's regular Commission meeting to hear input from customers.
- Following the public discussion, the Board will further discuss and may act on a resolution taking an official position on the measure.

# Thoughts?

