

Comments of the Western Power Trading Forum to the Washington Department of Commerce on Carbon Markets for the Clean Air Rule

October 13, 2017

The Western Power Trading Forum (WPTF) offers these comments to Washington Department of Ecology on its consideration of potential linkages to other carbon markets as sources of compliance instruments under the Clean Air Rule (CAR). WPTF is an organization of power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the Western United States. WPTF has over 80 members participating in power markets within the western states, as well as other markets across the United States and Canada.

WPTF has consistently advocated for Washington to adopt a true allowance trading system, to enable bilateral linkage to the Western Climate Initiative (WCI). For the electricity sector, linkage of western state emission reduction programs would facilitate a uniform carbon price signal to generators within the regional power market. This will ensure a level playing field for similarly situated resources, avoid electricity market distortions and mitigate emissions leakage across states.

Because the CAR is not an allowance-based system, it cannot be bilaterally linked to the WCI. However, there would still be benefits to a one-way linkage that would enable WCI allowances to be used for compliance in the CAR. As WPTF indicated in our comments on the proposed CAR submitted to the Department of Ecology in July 2016, we are concerned that the CAR will not stimulate a viable market in Emission Reduction Units (ERUs) due to the small scale of the program, and the lack of critical market infrastructure, such as an emission reduction unit (ERU) registry. For these reasons, instruments from other programs will likely be needed by entities who must comply with the CAR. The CAR itself anticipates that allowances from external programs will be the source for a high proportion of ERUs during the first compliance periods.

Although it may be feasible for the CAR to be linked with other programs outside of the United States and Canada, such as the cap and trade programs of Europe, New Zealand and South Korea, such linkages would undoubtedly be more administratively complicated, for both the Department of Ecology and entities covered by the CAR. Further, we note that California has recently adopted a change to its regulation that would provide a mechanism for a one-way linkage. Under this mechanism, the "Retirement-Only Agreement with External GHG Program," Washington and California would enter into an agreement that allows entities subject to the CAR to arrange for California compliance instruments to be retired under the California program for credit under the CAR¹. Linkage to the WCI would also ensure that ERUs used within the CAR are the result of emission reductions within North America.

For this reason, we urge the Department of Ecology to work with California, and its linkage partners in Quebec and Ontario, to take the necessary steps to establish a one-way linkage to the WCI.

¹ See Cal. Code Reg. tit. 17 § 95945.

