

# NW Energy Coalition

NW Energy Coalition's initial comments regarding the Clean Fuels Program Rule.



December 22, 2021

Via Electronic Filing

Department of Ecology  
State of Washington  
P.O. Box 47600  
Olympia, WA 98504-7600

**RE: NW Energy Coalition's initial comments regarding the Clean Fuels Program Rule, Chapters 173-424 WAC**

Dear Debebe Dererie:

The NW Energy Coalition (NWECC) appreciates the opportunity to participate in the Clean Fuels Program (CFP) stakeholder meetings. We are encouraged by the engagement from interested stakeholders and provide the below ideas for the Department of Ecology's consideration in advance of the CR102. With several stakeholder meetings planned for 2022, these initial comments are not meant to be exhaustive and we will likely provide additional comments throughout the CFP rulemaking process.

**Carbon Intensity of Electricity**

Accurate accounting of utility carbon intensity (CI) is important to maintain the integrity of the CFP. NWECC would be interested in exploring the value of aligning with the Oregon methodology to calculate the CI of electricity. Adopting a single-year CI for a utility-specific grid mix, which is required in RCW 70A.535.030(1)(b)(ii), allows utilities and retail customers served by utilities to benefit from the retirement of coal- and gas-fired power plants and the addition of new renewable resource generation to the grid with relatively small effects from hydropower system variability. Ultimately, this would result in increased base credit generation as utilities lower their grid mix CI.

RCW 70A.535.030(1)(b)(iii) allows the retirement or use of a renewable energy credit (REC) as a mechanism to certify electricity has a CI of zero in order to calculate a utility's grid mix CI. This is appropriate for the generation of base credits using a utility's grid mix CI.<sup>1</sup> A utility's grid mix CI should only account for RECs purchased and retired for the purpose of complying with existing regulatory requirements (i.e. the Clean Energy Transformation Act and the Energy Independence Act). RECs purchased and retired solely to demonstrate a lower CI under the clean fuels program should not be included to calculate a utility's grid mix CI. We will address additional concerns with purchasing and retiring RECs solely for the clean fuels program further under the "Incremental Credits" section within these comments.

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<sup>1</sup> Base credits refer to electricity credits that are generated by the carbon reduction between the gasoline or diesel standard and the carbon intensity of a utility-specific electricity.

## Smart Charging

We strongly encourage the Department of Ecology (Ecology) to develop a smart charging pathway as a method to demonstrate lower electricity CI and generate additional credits. The smart charging pathway provides an opportunity to lower electricity CI and harmonize CFP intentions with work to optimize EV charging, mitigate grid impacts, and reduce the need for new gas-fired power plants.

California's Low Carbon Fuel Standard (LCFS) includes a smart charging pathway and utilizes an hourly CI value lookup table.<sup>2</sup> However, California has also adopted other pathways to demonstrate a lower electricity CI that has resulted in the underutilization of the smart charging pathway. Oregon did not adopt this approach in their recent CFP Electricity 2021 rulemaking because some stakeholders expressed that it was difficult to gather this data in Oregon.<sup>3</sup> However, WattTime commented that hourly emissions data from the Environmental Protection Agency's (EPA) Continuous Emissions Monitoring System (CEMS) and real-time electricity demand and generation data from the Energy Information Administration for balancing authorities is available.<sup>4</sup>

Another simplified approach, as an alternative to an hourly CI lookup table, could be to calculate the avoided CI based on avoided marginal capacity from off-peak charging. This value could be used to claim lower CI electricity for off-peak EV charging when generating CFP credits.

The transportation sector is bringing a rapid increase in load to electric utilities and it is important that we use every measure to reduce the possibility of this new load triggering expensive distribution and transmission system upgrades, the need for new electricity generation, and the potential need for more carbon intensive fuel sources. The State Energy Strategy Decarbonization Modeling, Electrification Scenario indicates that "electricity demand grows 90% over 2020 levels by 2050, displacing fossil fuels in [...] transportation through assumptions that drive replacement of existing equipment with electrified [...] vehicles at the end of their useful lives."<sup>5</sup> A smart charging pathway would help align the clean fuels program with efforts to reduce demand and we strongly encourage Ecology to incorporate this pathway.

## Incremental Credits

Greenhouse gas (GHG) emissions policies, the Clean Energy Transformation Act (CETA), and electricity markets are all connected and there have been several forums to discuss the relation between state specific policies and regional markets. RECs are frequently used in various clean energy policies to demonstrate a claim on the non-power attributes of renewable electricity generation and as RECs are

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[https://ww2.arb.ca.gov/sites/default/files/classic/fuels/lcfs/fuelpathways/comments/tier2/2021\\_elec\\_update.pdf?\\_ga=2.65942953.627289463.1634084693-610816894.1626888280](https://ww2.arb.ca.gov/sites/default/files/classic/fuels/lcfs/fuelpathways/comments/tier2/2021_elec_update.pdf?_ga=2.65942953.627289463.1634084693-610816894.1626888280)

<sup>3</sup> <https://www.oregon.gov/deq/Regulations/rulemaking/Pages/rcfpe2021.aspx>

<sup>4</sup> <https://www.oregon.gov/deq/Regulations/rulemaking/RuleDocuments/cfpe2021m3comments.pdf>

<sup>5</sup> <https://www.commerce.wa.gov/wp-content/uploads/2020/12/Washington-2021-State-Energy-Strategy-December-2020.pdf>

defined in Washington, no attributes exist outside of the REC.<sup>6</sup> The California LCFS and Oregon CFP allow certain entities to purchase and retire RECs in order to demonstrate incremental electricity CI reductions as a means to generate incremental credits.<sup>7</sup>

However, with Washington already transitioning to 100 percent renewable and non-emitting resources by 2045, it's important to understand how the use of RECs may interact with various policies and markets if Ecology is considering the use of RECs solely to demonstrate a lower CI under the Washington CFP.<sup>8</sup>

## 1. Double Counting

With the passage of CETA in 2019, the Washington Utilities and Transportation Commission and the Washington Department of Commerce convened the Clean Energy Transformation Act Carbon and Markets Workgroup (MWG) and one of the items they sought to address was double counting of non-power attributes. This has been a topic in other forums, especially as it relates to renewable energy imported into California via the Energy Imbalance Market (EIM) and claims on associated RECs used for compliance under other programs.<sup>9</sup>

There was significant discussion amongst MWG members regarding California's cap-and-trade program and how specified imports of zero-emitting energy may be sold into California without a corresponding requirement to retire the REC associated with that import. NWECA agrees with some MWG members that it would constitute double-counting of the non-power attributes if a REC associated with a specified sale of a renewable resource to California was used for CETA compliance.<sup>10</sup> Similarly, it would constitute double counting of the non-power attributes if a REC associated with a specified sale of a renewable resource to California was used to demonstrate a lower CI, both for base and incremental credits, under the Washington CFP.

In order to maintain the integrity of the Washington CFP, we caution against using RECs for incremental credits as they may exacerbate double counting issues. As an alternative, Ecology could consider allowing entities to generate incremental credits from EV charging attributed to utility customers participating in a green tariff program.

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<sup>6</sup> RCW 19.405.020(31) "Renewable energy credit" means a tradable certificate of proof of one megawatt-hour of a renewable resource. The certificate includes all of the nonpower attributes associated with that one megawatt-hour of electricity and the certificate is verified by a renewable energy credit tracking system selected by the department.

<sup>7</sup> Incremental credit refers to a credit that is generated by an action to further lower the carbon intensity of electricity. Incremental credits are calculated from the difference between the carbon intensity of grid electricity and the carbon intensity of renewable electricity.

<sup>8</sup> RCW 19.405.050

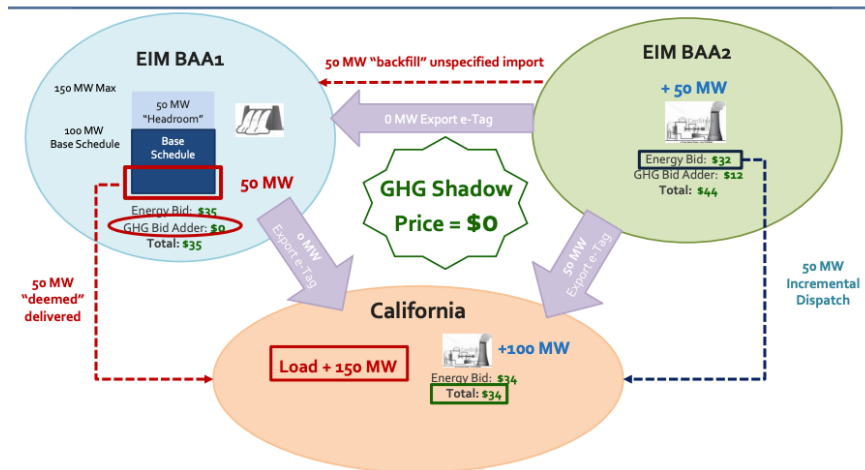
<sup>9</sup> Public Comments on Renewable Energy Certificates Associated with Energy Imported into the California Energy Imbalance Market <https://www.oregon.gov/energy/energy-oregon/Documents/2017-Public-Comments-RECs-EIM.pdf>

<sup>10</sup> See UTC docket UE-190760, Summary Report; May 18, 2021

## 2. Resource Shuffling

Energy Imbalance Market (EIM) transactions can result in undetected thermal resources delivered for use by Washington retail electricity customers, which is sometimes referred to as resource shuffling. Take this illustration of an example EIM transaction:

### EIM Deeming Algorithm with Enhancements



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Say a utility in California, the orange circle, needs to serve an additional 150 MW and the Washington utility, the blue circle, sells 50 MW of renewable power. The EIM deeming algorithm will deem Washington's renewable electricity delivered to California, which could result in an additional import to Washington if the utility needs to backfill that sale. This import could be a thermal resource, represented by the green circle. The transaction allows thermal resources to ultimately serve Washington load. If the Washington utility retained the RECs from the 50 MW of electricity, the thermal resource will go undetected and the emissions attributes will be double counted. While EIM transactions account for a relatively small amount of electricity supplied to Washington, they will likely increase with the development of the extended day-ahead market.

NWEC raises these considerations in an effort to inform the rulemaking process as well as encourage rule design that acknowledges and works to mitigate CFP pathways that could exacerbate these issues. RECs, both bundled and unbundled, are used for CETA compliance and utilizing them for incremental credit generation in the Washington CFP could exacerbate existing issues and/or add complexities that may make it difficult to maintain the integrity of the Washington CFP.

CETA and the EIM are vital to a clean and affordable transportation future and we encourage continued work to help electricity markets adapt to Washington's clean energy policies. Taking this into account, we do not recommend the use of RECs solely to demonstrate a lower CI under the Washington CFP.

<sup>11</sup> See slide 10 of the Public Generating Pool's EIM GHG Market Design presentation to the Carbon and Electricity Markets Stakeholder Work Group, UE-190760; May 2020

## **Capacity Credits**

NWEC understand RCW 70A.535.050(2)(a) directs Ecology to allow entities to generate credits based on capacity for zero emission vehicle refueling infrastructure, including DC fast charging infrastructure and hydrogen refueling infrastructure. However, we have significant concerns that capacity credits will compromise the integrity of the CFP given that a capacity credit does not equal one metric ton of carbon dioxide equivalent less than the applicable standard adopted under RCW 70A.535.020.

We do not recommend the inclusion of capacity credits in the CFP rule. If Ecology chooses to move forward with capacity credits, it will need to fill the gap the capacity credits create to ensure the program is meeting the required CI reduction as well as adopt extensive sideboards to ensure capacity credits do not exacerbate existing inequities and that entities generating them are acting in the public interest.

## **First Right to Electricity Credits**

NWEC supports the approach adopted in Oregon for claiming base electricity credits.<sup>12</sup> We want to emphasize the important role electric utilities play in generating credits on behalf of customers. Electric utilities, as fuel providers, aggregate credits on behalf of customers under the California LCFS and Oregon CFP. We support this approach in Washington as electric utilities have a history of acting on behalf of their customers, Washington residents, with years of experience implementing customer side programs. We recommend that automakers not be eligible to claim electricity credits as they are not fuel providers or entities that can reasonably act on behalf of Washington residents.

## **Book-and-Claim Accounting for Biomethane**

The California LCFS and Oregon CFP allow book-and-claim accounting for pipeline-injected biomethane that is either claimed as a transportation fuel or claimed as a feedstock to produce hydrogen for transportation purposes. It does not appear as though there are any geographic requirements other than that the environmental attributes must be associated with biomethane injected into a common carrier pipeline. NWEC is concerned that adopting this approach in Washington could result in superficial CI reduction claims and no local benefits.

We encourage Ecology to explore whether additional geographic requirements could provide local benefits while assessing any inadvertent impacts.

## **Conclusion**

We want to reiterate our support for the joint comments submitted on November 5, 2021 and encourage Ecology to adopt a carbon intensity trajectory that would require a 20% reduction in carbon

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<sup>12</sup> OAR 340-253-0330

intensity of fuels be achieved by the earliest date allowed in the law—2034. NWECC appreciates Ecology's work to engage and inform stakeholders and we look forward to providing feedback on draft rule language.

Thank you for your consideration of the NW Energy Coalition's comments.

Respectfully submitted,

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