



December 2, 2021

ATTN: Luke Martland
Department of Ecology
Air Quality Program
P.O. Box 47600
Olympia, WA 98504-7600

RE: Cap-and-invest program rules (Chapter 173-446 WAC)

Puget Sound Energy (PSE) is Washington State's oldest and largest investor-owned energy utility, serving over 1.1 million electric and over 850,000 natural gas customers with safe and reliable energy services. In January, PSE announced an aspirational goal to be a Beyond Net Zero Carbon company by 2045. PSE will target reducing its own carbon emissions to net zero and go beyond by helping other sectors to enable carbon reduction across the state of Washington. In alignment with our Beyond Net Zero aspirations, PSE was proud to support the Climate Commitment Act (CCA) this past session and is preparing in earnest for the implementation of this important policy.

In preparing for implementation, PSE has identified the following key issues for the Department of Ecology's (Ecology) consideration during the development of the CCA program rules.

Linkage

Ecology is directed in statute¹ to develop rules that allow for linkage of Washington's cap-and-invest (C&I) program with similar programs in other jurisdictions. The ability to link, whether immediately or in the near future, must be both established and preserved through the initial rulemaking process. Linkage allows the program to maximize market efficiencies and reduce greenhouse gas (GHG) emissions at the lowest cost possible. As such, throughout the rulemaking process, Ecology must focus on key areas that preserve the ability to link such as the price floor/ceiling, price containment mechanisms, consistent program infrastructure, and other market features. PSE is conducting further analysis on the issue of linkage and will follow-up with the agency.

Additionally, PSE believes it essential that the agency be in close discussions with other potential linking jurisdictions at both the leadership and technical levels to ensure that as market design progresses, the ability to link is preserved. PSE encourages just such collaboration with entities like the California Air Resources Board (CARB), Western Climate Initiative (WCI), the Ministry of Quebec, and others.

Baseline

Accurately determining PSE's baseline will directly impact compliance, allowance allocation, and protecting customers from undue cost burden. TransAlta's Centralia Generation Station emissions are in PSE's 2015-2019 consumption-based emissions baseline reflecting energy consumed by Washington State customers for those years. As such, we believe that Ecology should recognize in PSE's allowance allocation scheme that this power will need to be replaced following the closure of

¹ RCW 70A.65

Centralia in 2025. PSE looks forward to discussions with Ecology on this issue prior to direction from the agency on allocations.

Allowance Allocation for Electric Utilities

PSE recommends that Ecology encourage and allow the electric utility sector to collectively recommend methodologies for the forecasting and allocating of allowances for the sector consistent with the statute. PSE is committed to working with other utilities and has started these discussions. Ecology should coordinate with and convey this idea to the Washington Utilities and Transportation Commission (WUTC) as well. Ultimately, PSE believes that overly prescriptive regulatory language could impede this sector's ability to plan for the future and manage impacts to customers.

Furthermore, Ecology should consider adopting multi-compliance period utility allocation schedules to allow for the required infrastructure planning and capital investments – ideally prior to the initial compliance period but certainly prior to the second compliance period. The electric sector already has longer duration forecasts that can be leveraged for multi-compliance period allocation schedules.

Offsets & Cap

PSE believes Ecology should not attempt to reduce the use of allocated allowances based on offset usage. Furthermore, we would like to recommend that the agency not further reduce the cap based on offset usage. Given the program structure of distributing allocated allowances in October for the following year and four-year compliance periods, it is difficult to conceptualize how Ecology would operationalize either mechanism. Given the complex nature of this issue, PSE strongly encourages Ecology to convene a robust discussion of how offsets could work under the CCA in advance of draft rules being written on this topic.

Confidentiality in Markets

Ecology should **not** make public the volume of allowance in entity holding accounts as proposed in the draft rule. Confidentiality in market positions is critical to a well-functioning allowance market and making this information public risks the integrity of the market. The CCA requires rules that limit market manipulation. Given that statutory direction, PSE requests that Ecology strike that language from the draft rules currently circulating². Moreover, PSE is concerned that the market integrity risk associated with that current language could create an impediment to linking Washington's program with similar programs in other jurisdictions.

Coordination with WUTC and Certainty

Implementation of the CCA and operation of the C&I program will be deeply impactful to our company and our customers. The program rules developed by Ecology need to provide long-term certainty for covered entities. In particular, load-serving utilities are required to do long-term planning over a 20+-year horizon to ensure energy supply meets energy demands (i.e. integrated resource planning) with critical investment decisions following that planning cycle. Further, utilities like PSE are embarking on regular planning through the Clean Energy Implementation Plan (CEIP) process – charting a course of action for clean electricity programs and investments in accordance with the goals set by Washington's Clean Energy Transformation Act (CETA). Utility scale investment and planning includes projects with lengthy lead times, significant capital requirements, and are subject to an entirely separate regulatory approval process at the WUTC. As such, program certainty and stability will be key for utilities like PSE and our customers as we move forward with implementation of and compliance with the CCA. It is imperative that Ecology and the WUTC are coordinated and working

² WAC 173-446-150, (3)

<https://ecology.wa.gov/DOE/files/82/82d5b5eb-fe6c-44d4-9b0d-70ce8405e7db.pdf>

together on this important policy to ensure implementation is efficient and effective, particularly around the rate impacts to customers (especially low income customers) required for the investments needed to decarbonize the electric and natural gas systems.

Conclusion

PSE appreciates the opportunity to raise these initial points and looks forward to continued dialogue throughout the rulemaking process. Should you have any questions, please reach out to Kassie Markos (kassie.markos@pse.com; 206-258-0308) or Lorna Luebbe (lorna.luebbe@pse.com; 206-604-3773).

Sincerely,

A handwritten signature in black ink that reads "Lorna Luebbe". The signature is written in a cursive, flowing style.

Lorna Luebbe
Assistant General Counsel, Director of Environmental Services
Puget Sound Energy

Cc: Amanda Maxwell
Executive Director
Washington Utilities and Transportation Commission