December 3, 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)

Introduction

These initial comments regarding cap-and-invest (C&I) program rules are submitted jointly by Avista, Cascade Natural Gas, NW Natural, and Puget Sound Energy (collectively referred to as "Washington's natural gas utilities", the "Joint Utilities", or "we"). We appreciate the opportunity to provide our collective thoughts as the Department of Ecology ("Ecology") embarks on this important rulemaking effort.

Washington's natural gas utilities are committed to decarbonization. We have each adopted and are diligently acting upon aspirational goals to reduce our respective emissions. The Joint Utilities are also participating in an investigation currently being undertaken by the Washington Utilities and Transportation Commission (WUTC) to study the regulatory barriers to, and opportunities for, decarbonizing the natural gas sector. Depending on the outcome, this study may yield additional policy recommendations that may complement the Climate Commitment Act (CCA).

The CCA will drive significant greenhouse gas emission reductions for covered entities to meet their proportional share of the State's emission reduction limits under RCW 70A.45.020 as affirmed in the CCA statute: "(i)n order to ensure that greenhouse gas emissions are reduced by covered entities [including natural gas utilities] consistent with the limits established in RCW 70A.45.020, the department [of ecology] must implement a cap on greenhouse gas emission from covered entities and a program to track, verify, and enforce compliance…[1]". As such, the Joint Utilities are working in earnest on the implementation of the CCA and appreciate the importance of engaging in the agency's rulemaking process to accomplish the objectives of the C&I program in a manner that does not financially burden utility customers and achieves our sector's portion of the statutory emission reduction limits.

In approaching the rulemaking process, the Joint Utilities would like to underscore that in our commitment to decarbonization we are technology neutral in terms of what low

[1] RCW 70A.65.060

carbon fuel flows through the pipe system.[2] Rather, it is of paramount importance to us that the value of our existing infrastructure be recognized as benefitting the regional energy system and electric and natural gas customers alike. For example, gas-fired peaker power plants allow for the integration of higher levels of intermittent renewables such as wind farms rely on existing pipes and storage facilities. Such gas-fired peaker plants can be transitioned to run on low carbon fuels such as renewable natural gas (RNG) and hydrogen. For these reasons, we appreciate the inclusion in the working draft language of an exemption for landfills that produce RNG. Inclusion of such language incentivizes the production of low carbon fuels that will be essential to decarbonization. We encourage Ecology to continue incentivizing the production of low carbon fuels like RNG and hydrogen as the rulemaking progresses.

Key Issues

The Joint Utilities have identified the following key issues for Ecology's consideration during the development of the CCA program rules:

- **Linkage:** Ecology is directed in statute[3] to develop rules that allow for linkage of Washington's C&I program with similar programs in other jurisdictions. The ability to link, whether immediately or later in the first compliance period, must be both established and preserved through the initial rulemaking process so as to maximize market efficiencies that reduce the most GHG emissions at the lowest cost possible. In that vein, linkage should be pursued as a "more cost-effective means"[4] for natural gas utilities to meet their compliance obligations under the program thereby achieving their portion of the statewide carbon reduction goals. Moving forward, the Joint Utilities strongly encourage Ecology to closely collaborate, at the leadership and technical levels, with entities like the California Air Resources Board, Western Climate Initiative, the Ministry of Quebec, and others to ensure proper market design and that the ability to link can be pursued imminently.

- **Allowances:** As it relates to the allocation and use of allowances, the Joint Utilities would like to emphasize the following points:
    - Free allocation of allowances is proscribed by the CCA for natural gas utilities with the allocation amount to decline according to their proportional share of reductions necessary to meet state carbon reduction goals. Rules for allocation should adhere to lawmakers' intent and direction to provide free allowances with an increasing percentage consigned to auction for the benefit of ratepayers that decline as the overall cap declines.
    - Natural gas is not available geographically in all parts of our state, however, the effect of the existing gas infrastructure in certain parts of the

[2] Low carbon fuels include renewable natural gas (RNG), hydrogen, and synthetic natural gas.
[3] RCW 70A.65.060
[4] RCW 70A.65.060

state complements the entirety of the state electric system by keeping demand for electric supply and infrastructure and thus electric customer costs lower. We believe the CCA will drive a transition to low carbon fuels in the state's existing gas infrastructure system that will continue to complement the electric system thereby achieving the highest carbon reductions at the lowest cost to customers.

  - Customer benefits from consigned allowances should be viewed expansively to accommodate technological means for reducing emissions including, but not limited to, carbon capture sequestration, and utilization, low carbon fuels, near-net zero gas equipment and technologies, and other GHG reduction activities.
  - Because natural gas utilities are not all similarly situated (operating in different climates and having unique customer characteristics), they should be afforded flexibility in their use of allowance proceeds to benefit customers. Utilities must have flexibility to plan for compliance and protect customers from potential rate shock given that variable weather conditions (both temperature and snowpack) can result in volatile natural gas sales and emissions may rise and fall unpredictably from year to year.

- **Emissions Treatment:** As the blend of gaseous fuels placed into the pipeline continues to diversify, the overall carbon intensity of the gas system will likewise evolve. It is therefore imperative that the treatment of emissions from fossil gas, as well as, low carbon fuels be established in a way that accurately accounts for the carbon intensity of a regulated entity's total fuel mix, and allows the natural gas utilities to expedite the decarbonization of the gas system. Low carbon fuels can range from carbon positive, carbon neutral or even deeply carbon negative (e.g. dairy manure digesters). In order to have a scientifically accurate and measurable C&I program, a full life-cycle carbon accounting of low carbon fuels is required. Internationally recognized carbon accounting standards for low carbon fuels should be employed in this rule. Accounting for the full life-cycle emissions of low carbon fuels would incentivize increased low carbon fuel blending to achieve carbon reductions sooner and ultimately transition to an entirely carbon-free gas product throughout the state. As a technology-neutral market mechanism, C&I should recognize the life-cycle benefits of low carbon fuels to facilitate and accelerate the cost-effective decarbonization of both the electric and natural gas systems.

- **Driving Innovation:** In writing the rules, Ecology should keep in mind that innovation should be encouraged for the adoption of cost-effective, feasible and commercially available technologies that can decarbonize our sales and our sector.

- **Driving Reduction in Other Sectors:** With a transition to low carbon fuels the natural gas system is uniquely poised to help other sectors decarbonize, including long-haul trucking, marine and other difficult to electrify industrial customers and transportation sectors, and gas transport customers (to whom we only deliver gas and are not covered entities themselves). The Joint Utilities will work with Ecology and the WUTC to develop regulatory mechanisms to promote such emission reductions.

Recommendations

The CCA specifies several instances where the Department must consult with the WUTC. The interplay between the requirements of the C&I program and economic regulatory mechanisms will be deeply impactful to our companies. It is of the utmost importance that Ecology and WUTC regularly consult and coordinate with each other and with the natural gas utilities to mitigate possible adverse impacts on our customers and more broadly the state's economy.

Moving forward, we would encourage Ecology to convene a sector-specific working group for the natural gas utilities, including the WUTC as appropriate, to ensure implementation of the CCA is efficient and effective and protects our collective customer bases from undue cost burdens while achieving the goals of the law.

Conclusion

Thank you for the opportunity to provide these initial comments. The Joint Utilities look forward to a continued dialogue throughout the rulemaking process.

Sincerely,

/s/Bruce Howard
Bruce Howard
Senior Director of Environmental Affairs
Avista

/s/Abbie Krebsbach
Abbie Krebsbach
Environmental Director
Cascade Natural Gas

/s/Kellye Dundon
Kellye Dundon
Environmental Policy & Programs Manager
NW Natural

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