

**Comments of the Western Power Trading Forum
to the Washington Department of Ecology
on Electricity Imports through
Centralized Electricity Markets**

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Clare Breidenich
WPTF Carbon and Clean Energy Committee
cbreidenich@aciem.us

Introduction

The Western Power Trading Forum (WPTF) appreciates the opportunity to provide input to the Washington Department of Ecology (Ecology) on its consideration of informal draft rules for electricity imported via Centralized Electricity Markets. Development of robust rules for these imports is essential to ensure the environmental integrity of the Climate Commitment Act (CCA) and to facilitate linkage to the California and Quebec cap-and-trade programs.

WPTF's general comments on the informal draft reporting rule are provided below. The separate attachment includes our suggested edits to the draft and explanatory comments of these changes in the margins. These textual changes are shown as strike-out deletions and underlined insertions on top of a clean version of the informal rules (i.e. all Ecology's proposed changes have been accepted). Ecology should also make changes in the CCA program rule, consistent with those we recommend in the reporting rule.

Given the complexity of the changes needed to the rules to address electricity imported through the centralized markets, we urge Ecology to provide one more iteration of informal rules and comments prior to the formal proposed rule.

General Comments

Ecology must unambiguously define the electricity importer for electricity imported through the centralized markets.

The definitions included in RCW 70A.65.010 (27) are intended to determine the entity that will bear obligation to acquire and surrender allowances associated with imported electricity under the CCA. To enable identification of a single entity that bears the compliance obligation for each import, the statutory definitions describe multiple import scenarios and precisely identify which entity would be the electricity importer in each case. It is therefore reasonable to infer that the legislature intended the same level of specificity in the mandate to Ecology to define the electricity importer for electricity imported through a centralized market.

The definition of "designated market importer" proposed by Ecology fails to unambiguously define the electricity importer for electricity imported through a centralized market by inappropriately delegating the responsibility to make such determinations to the centralized market operators. Not only is this approach incompatible with Ecology's fundamental responsibility to establish and enforce compliance rules for the CCA, but it also could create risk for market operators that the Federal Energy Regulatory Commission (FERC) would reject the greenhouse gas accounting and attribution provisions in the market tariffs.

WPTF understands and supports Ecology's intention to accommodate the market designs of both the California Independent System Operator's (CAISO) Extended Day Ahead Market (EDAM) and the Southwest Power Pool's Markets+ in this rulemaking. However, achieving this objective does not necessitate delegating the critical determination of the compliance entity for electricity imports to the market operators. Rather, Ecology can simply define the electricity importer for two types of electricity imports through the centralized markets:

- specified-source electricity imports: the market participant that offers the energy, and
- unspecified pathway market electricity: the market participant that purchases unspecified pathway market electricity (the Washington retail providers).

In the case that a centralized market design does not enable unspecified pathway electricity imports, the definition of electricity importer for those imports would simply not apply.

Further, by clearly defining the electricity importer for both types of imports through a centralized market, Ecology avoids the need for a compliance backstop that would define the importer as the market operator. Both market operators have demonstrated a clear willingness to support implementation of the CCA by developing procedures that attribute electricity to Washington and that identify the specific market participant that would be considered the electricity importer in accordance with the program rules. Looking to CAISO's support of the California cap and trade program within the Energy Imbalance Market and its cooperation with the California Air Resources Board (CARB) as an example, it is clear that centralized market operators can work with air regulators to comprehensively identify electricity importers, quantities of imported energy and associated emissions sidestepping the need to assign backstop liability to market operators.

Ecology must establish specified import requirements to guide the development of centralized market design features that address emissions leakage.

WPTF appreciates Ecology's acknowledgement in the October 12th presentation of the central importance of addressing emissions leakage in the electricity sector. This is a useful signal of Ecology's support for market design features that minimize leakage, but WPTF believes that additional regulatory provisions are needed to provide a framework for these design features.

Both the EDAM design and the evolving Markets+ design address emissions leakage by constraining the attribution of low and non-emitting electricity to Washington and California to electricity that is contracted to load in the relevant state, or electricity that is considered surplus¹. While WPTF generally supports the use of contracts and identification of surplus to address emissions leakage, we believe that Ecology needs to codify these requirements in the program rules. The centralized market approaches to addressing emissions leakage essentially require the market operator to distinguish between different classes of energy, i.e., contracted to load in Washington/not contracted to load in Washington; surplus/not surplus. Without a clear basis in the program rules for these distinctions, WPTF is concerned that the market operators could be vulnerable to accusations that they are discriminating against market participants that offer energy that does not meet these requirements by independently and arbitrarily imposing conditions on electricity imports to Washington that are not supported by program requirements. For this reason, WPTF urges Ecology to adopt additional requirements for specified imports that would provide a legal basis for the market design features that support CCA implementation.

Ecology should define surplus energy.

The EDAM and Markets+ market designs rely on fundamentally different concepts of what constitutes surplus electricity. The EDAM design uses a counter-factual dispatch in which transfers would not be allowed to California or Washington. Only electricity that is not dispatched in the counterfactual run is considered available to be attributed to California and Washington. Implicitly, this approach defines surplus as electricity that is in excess of the load needs of the *entire market footprint outside of California and Washington*. This approach has the effect of giving others states priority access to clean, low-cost electricity. For example, because renewable resources are typically price takers, during periods

¹ EDAM establishes a counterfactual reference pass to identify surplus electricity and enables electricity that is contracted to load in California or Washington to be excluded from the reference pass. Markets+ is anticipated to treat electricity that is contracted to load, or that is identified as surplus to be eligible to be attributed to Washington.

of significant solar generation in the southwest, these resources are likely to be fully dispatched in the counterfactual run, making that energy unavailable to be attributed to California or Washington.

In contrast, the Markets+ approach being developed enables market participants to indicate an energy threshold, above which dispatched energy would be considered surplus, in line with any regulatory requirements adopted by Ecology. WPTF considers the Markets+ approach to be far superior to the CAISO's because it appropriately relies on state regulators to make the policy determination of what constitutes surplus electricity, provides more flexibility and control to resource operators to manage the attribution of electricity to the cap-and-trade states in view of other obligations such as their load needs, procurement mandates and bilateral contracts. In this way, the Markets+ approach enables equal access to clean, low-cost surplus energy for Washington.

WPTF therefore recommends that Ecology adopt a definition of surplus electricity that supports the Markets+ approach. The surplus electricity definition should take into account the different types of low and non-emitting energy, and the different types of market participants. Specifically, we suggest that Ecology distinguish between hydro-electric projects and non-hydroelectric renewable or storage resources. Because the hydro-electric resources in the west are legacy resources owned by utilities or BPA, generation by these resources should be compared to the owner's load to determine available surplus. In contrast, investment in non-hydroelectric and storage resources has occurred mainly in the last 15 years, in response to renewable and clean energy procurement mandates, and by both utilities and independent power producers. WPTF suggests that the definition of surplus for electricity dispatched or discharged by these resources be considered in relation to any procurement mandates established by regulators in the host state and contractual obligations.

WPTF also recommends that Ecology establish additional reporting and documentation requirements related to surplus. We are not suggesting that the actual quantity of surplus energy offered should be verified, but rather that the *process* for how the entity determines the volume of surplus energy be verified. Entities that offer surplus electricity from hydro-electric resources should be required to submit a report, similar to that submitted by Asset-Controlling Suppliers, that provides information on generation owned or contracted by the entity, load and any specified source sales throughout the year. The reporting entity should also provide a qualitative description of how it determines the amount of surplus energy it has available to offer to the market, e.g. through a merit-order dispatch assessment or some other approach.

For utilities that offer surplus electricity from non-hydroelectric renewable or storage resources, the entity should provide a description in its annual GHG report to Ecology of any procurement mandates or any voluntary goals, and the process that the entity uses to determine the volume of energy offered as surplus versus held back for use toward the procurement mandate or goal. Both utilities and independent power producers should be prepared to show documentation, upon request, of all contracts for the offtake of non-hydroelectric renewable or energy storage resources.

Ecology must require identification of electricity dispatched by centralized energy markets and exported from Washington to prevent double counting of this energy.

Within centralized energy markets, energy that is exported from Washington will not be identifiable via an e-tag as would normally occur if the energy was exported via a bilateral transaction, or if the electricity was also exported from the centralized market footprint. Therefore, Ecology should expand the definition of electricity exports to include energy that is dispatched within a centralized market and committed to an entity outside Washington. Ecology should also provide guidance to market operators

to deduct the amount of exported electricity from the amount of Washington generation available to serve Washington load, so that the energy is not double counted.

Ecology should take advantage of the ability of centralized markets to provide accurate and dynamic accounting of GHG emissions associated with unspecified pathway market electricity.

WPTF appreciates that Ecology has included provisions to enable calculation by Ecology of an annual emission factor for unspecified pathway market electricity to be used for reporting by electric power entities. These provisions anticipate that the market operator would provide an annual report to Ecology that indicates all resources that support unspecified pathway market attribution. Ecology would then use this data to calculate an unspecified pathway market electricity emission factor that would be used for reporting by all Washington retail providers that purchase unspecified pathway market electricity. While this approach would accurately capture emissions associated with unspecified market electricity for the year, it would not send the desired market signal to avoid emissions by reflecting differences in the emission factors for unspecified market pathway electricity purchases that occur at different times.

Instead of Ecology calculating the emission factor for unspecified market pathway electricity, Ecology should request that market operators themselves calculate hourly residual emission factors in accordance with a new definition of the residual emission factor in the regulation. Emission factors for individual resources supporting unspecified pathway market electricity could be calculated using data reported to the US Environmental Protection Agency or to the Energy Information Administration, in the same manner as resources that register as specified sources. Each market operator could then calculate the residual emission factor for each hour, and then provide information to each Washington retail provider, and to Ecology, on the volume of unspecified pathway market electricity purchased in each hour and the relevant emission factor for that hour.

In addition, WPTF also recommends that Ecology direct market operators to use a shaped emission factor to calculate the GHG adder used in the optimization algorithm to determine the volume of any unspecified market pathway electricity attributed to Washington. Over time, the market operators can be reasonably expected to develop accurate forecasts of the dispatch of resources in each hour, so that a true marginal emission factor could be used in the GHG adder. In the short term, Ecology should request that the market operator set three different emission factors (i.e. low, mid and high) and select the emission factor to be used in each period based on forecast market conditions.