

Jessica Zahnow

November 27, 2023

Submitted via Web Portal

ATTN: Bill Drumheller, Gopika Patwa, and Joshua Grice
Department of Ecology
Climate Pollution Reduction Program
P.O. Box 47600
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RE: Informal Public Comment Period to address Ecology Questions on Leakage in its Electricity Markets Rulemaking

PSE offers the following comments in response to questions posed by the Washington Department of Ecology (Ecology) in its November 8, 2023 workshop on leakage. PSE is an investor-owned utility in Washington State providing electric service to more than one million customers and natural gas service to more than 900,000 customers in the state. PSE appreciates the opportunity to comment on this important issue and appreciates Ecology's careful attention toward addressing environmental leakage in centralized electricity markets. PSE would like to reiterate its supports for linking Washington's cap-and-invest program with the carbon market of California and Quebec while underscoring that policy design should be considered carefully and through the lens of facilitating linkage. PSE believes Ecology is asking the right questions at this phase of the rulemaking and looks forward to further discussion on this matter.

Should Ecology include an outstanding emissions leakage calculation for centralized electricity markets in this rulemaking?

PSE believes it is premature to establish an outstanding emissions calculation for imports into Washington through centralized electricity markets. While leakage is an important consideration, there is not currently sufficient data or operational experience to support specific rules addressing leakage. The market footprint of each respective market \diamond which is unknown at this time \diamond will be one of the most impactful factors in whether leakage is likely to occur. Stakeholders are working through reporting and data criteria to support GHG accounting in both CAISO's Enhanced Day-Ahead Market (EDAM) and the Southwest Power Pool's (SPP's) Markets initiative. These markets will have the ability to provide data and information to inform future enhancements \diamond if needed \diamond to mitigate leakage that may not be addressed directly in the respective market designs. These markets are expected to be in operation at roughly similar dates in early 2026. Data collection made available in 2027 should provide a year, or nearly a year of operational experience to evaluate the degree to which leakage is occurring in these markets and to inform a process for determining whether, to what extent, and by what means leakage should be addressed. PSE expects that, as markets are implemented, determining the manner and method of addressing leakage will be iterative and based on data and experience.

Additionally, PSE requests that Ecology consider completing a leakage study in a manner similar to the leakage study CARB is undertaking now for the electric sector. Such a study could provide more data and certainty around what constitutes environmental leakage to inform both the development of market GHG policies and future rulemaking and policy work undertaken by Ecology. By way of reference, PSE made this request in comments submitted to Ecology on 2024 agency request legislation.

Should Ecology follow CARB's hypothesized approach and focus the calculation on electricity below the market counterfactual run?

As stated above, it is premature to establish an outstanding emissions calculation for imports into Washington through centralized electricity markets at this time. While counterfactual tools may be an accessible way for a market optimization to evaluate near-real-time conditions, such an approach may not be appropriate when assigning emissions obligations as it may over-estimate emissions and raise costs for customers that are not commensurate with actual emissions reductions. Counterfactuals are generally complex, hard to replicate, and require assumptions which may not represent what actually would have happened.

How should resources committed to Washington load be treated?

Broadly speaking, capacity committed to Washington load is contracted clean supply and should not be imputed an outstanding emissions obligation. Buyers of clean, specified source energy are relying on its delivery to meet CETA/renewable standards. This is capacity that the supplier planned for and intended to send to a GHG-regulated load in Washington. It is conceivable some nominal measure of leakage in non-GHG zones could occur in intervals of high grid carbon intensity and high prices. Evaluation of the potential for leakage due to committed capacity could be part of a future analysis of actual operational data.

EIM emissions were addressed to some degree in the initial CCA allocation to electric utilities. How should this calculation reconcile itself with the cost burden allocation process and results?

PSE assumes Ecology is asking how an outstanding emissions calculation should be reconciled with the cost burden calculation and an electric utility's no-cost allowance allocation. In the first allowance allocation, electric utilities received no-cost allowances for their forecasted imports, including those from the WEIM. It is necessary for Ecology to take into account the various moving parts in this equation such as its open rulemaking in which PSE expects Ecology will determine the importer for centralized electricity market transactions, CARB's open rulemaking revisiting its outstanding emissions calculation, the timing of CAISO's implementation of Washington's cap-and-trade program, and the respective Markets and EDAM implementations. Ecology's rules defining the market importer may result in changes to the quantity of imports assigned to a given entity as cost burden forecasts assumed the importer was the retail provider, marketer, or asset controlling supplier that conducts an electricity

transaction through the EIM that results in EIM power being delivered to final point of delivery in Washington State. CAISO'S Washington WEIM implementation may also change the emissions attributed to a Washington entity if specified sources are assigned to Washington entities in place of all unspecified sources. Additionally, if an outstanding emissions calculation is imposed on some level of imports into the state, Washington customers would experience an additional unmitigated cost that was not included in its forecast cost burden. Due to all these factors, PSE recommends Ecology address changes in emissions through the allowance allocation adjustment mechanism in rule for the first compliance period and consider these factors more broadly, when more information is known, in utilities' forecasts for the second compliance period.

How should EIM leakage be addressed during the "interim" period?

PSE recommends taking a phased approach to addressing leakage in the Energy Imbalance Market (EIM) for the first CCA compliance period. This period should be used to build a knowledge base and refine the sources and types of data available to improve methodologies for GHG reporting. As EIM transactions represent a small share of overall wholesale activity, PSE suggests entities continue reporting EIM purchaser data for its EIM activity, consistent with the GHG reporting rules, but not imposing a compliance obligation on that activity. Furthermore, beginning in 2026 for obligation 2025, if Ecology switches the market importer in the draft rule language from in-state retail provider, marketer, or asset controlling supplier, to Designated Market Importer, then Ecology may have sufficient information to mimic CARB's outstanding emissions for EIM. Once Ecology changes the responsible importer and the market operator can implement sufficient import methodology, then Ecology could reasonably begin addressing EIM leakage by establishing an outstanding emissions calculation. PSE also highly recommends against changing its reporting obligation in the middle of a reporting year and should only change requested reporting data for a full calendar year.

Given the unsettled state of the Markets design process and tariff, how should design elements of that process be considered?

Ecology's rules should be sufficiently broad to sit above any singular market design and should provide a conceptual framework for technical implementation. That being said, it is premature to directly address any future market construct that is not currently developed or implemented in the present rulemaking. As Ecology itself has stated, rulemakings addressing centralized electricity markets will be iterative as the Washington program evolves and states and provinces consider program linkage.

With respect to Markets , PSE supports Ecology's proposal for the creation of an unspecified pathway in the present rulemaking. This is a conceptual component that is not shared among the two market designs and therefore needs to be addressed directly. Such a framework does not require any market design to include an unspecified pathway. Ecology's rules should also define the importer for unspecified pathway electricity, consistent with the requirements of the Climate Commitment Act . Ecology's draft rules currently define a designated market importer to be assigned by the market operator. By not explicitly defining the party with the obligation for

importing emissions into Washington, Ecology is transferring its statutorily granted authority to the market operators. Rather, Ecology should work with SPP and CAISO to determine what data will be available to identify the aggregate unspecified bulk import into Washington for a given interval, and to identify, for example, pro rata shares that could be attributed to resources dispatched in that interval that reasonably could have contributed to those imports, i.e., did not make their generation available via a specified source pathway to the GHG zone.

Will data be available and of sufficient quality? What are the data transparency considerations in GHG reporting rules?

A separate stakeholder process focusing on data issues ♦ availability, quality, and transparency -could inform future refinements to Ecology rules to address imports and leakage. More work is also needed to determine what can be provided by market participants and what should be provided by the market operator.

Threshold for taking action (e.g. administrative toggle?)

PSE believes it is premature to establish a threshold at this time due to the small proportion of wholesale activity represented by EIM transactions. An administrative toggle could be considered when more information is known, as part of a future rulemaking and linkage discussions.

Attempt for unified approach for identifying surplus energy?

PSE encourages Ecology to define surplus energy in the context of centralized electricity markets in the present rulemaking to support the current design and implementations of Markets and EDAM. This guidance will provide a much-needed framework for market operators' GHG accounting methodologies. PSE also encourages Ecology to coordinate, to the extent possible, on a definition of surplus energy with the other Washington agencies as well as with the California Air Resources Board and to seek a unified approach. To the extent a unified approach cannot be reached, Ecology could consider a definition of surplus that includes energy above contractual commitments and regulatory requirements. Absent a carbon-priced emissions program, a given entity may still meet significant quantities of its load service needs with market purchases. So any counterfactual that assumes all load must be met with internal resources may be an overestimation the counterfactual need and an underestimation of surplus in a given interval. Defining surplus as energy above contractual commitments and regulatory requirements would provide for the greatest possible access for Washington to uncommitted short-term clean energy supply while ensuring market operators and market participants cannot receive attribution for generation devoted to pre-market commitments.

Conclusion

PSE appreciates the opportunity to respond to Ecology's questions on how it should consider environmental leakage in centralized electricity markets and recognizes the importance of this issue as the respective state and provincial agencies evaluate

linkage and align programs. We look forward to continued discussion, technical workshops and an iterative development of rules.

Sincerely,

/s/ Jason Kuzma
Jason Kuzma
Director, Assistant General Counsel
Puget Sound Energy



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of Washington's cap-and-trade program, and the respective Markets + and EDAM implementations. Ecology's rules defining the market importer may result in changes to the quantity of imports assigned to a given entity as cost burden forecasts assumed the importer was the retail provider, marketer, or asset controlling supplier that conducts an electricity transaction through the EIM that results in EIM power being delivered to final point of delivery in Washington State. CAISO'S Washington WEIM implementation may also change the emissions attributed to a Washington entity if specified sources are assigned to Washington entities in place of all unspecified sources. Additionally, if an outstanding emissions calculation is imposed on some level of imports into the state, Washington customers would experience an additional unmitigated cost that was not included in its forecast cost burden. Due to all these factors, PSE recommends Ecology address changes in emissions through the allowance allocation adjustment mechanism in rule¹ for the first compliance period and consider these factors more broadly, when more information is known, in utilities' forecasts for the second compliance period.

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Given the unsettled state of the Markets+ design process and tariff, how should design elements of that process be considered?

Ecology's rules should be sufficiently broad to sit above any singular market design and should provide a conceptual framework for technical implementation. That being said, it is premature to directly address any future market construct that is not currently developed or implemented in the present rulemaking. As Ecology itself has stated, rulemakings addressing centralized electricity markets will be iterative as the Washington program evolves and states and provinces consider program linkage.

¹ WAC 173-446-230 (2) (f) (g)

With respect to Markets +, PSE supports Ecology’s proposal for the creation of an unspecified pathway in the present rulemaking. This is a conceptual component that is not shared among the two market designs and therefore needs to be addressed directly. Such a framework does not require any market design to include an unspecified pathway. Ecology’s rules should also define the importer for *unspecified pathway electricity*, consistent with the requirements of the Climate Commitment Act². Ecology’s draft rules currently define a *designated market importer* to be assigned by the market operator. By not explicitly defining the party with the obligation for importing emissions into Washington, Ecology is transferring its statutorily granted authority to the market operators. Rather, Ecology should work with SPP and CAISO to determine what data will be available to identify the aggregate unspecified bulk import into Washington for a given interval, and to identify, for example, pro rata shares that could be attributed to resources dispatched in that interval that reasonably could have contributed to those imports, i.e., did not make their generation available via a specified source pathway to the GHG zone.

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² The definition of “electricity importer” for electricity imported through a centralized electricity market provided under RCW 70A.65.010 (27)(c) states that the electricity importer “will be defined by rule consistent with the rules required under RCW 70A.65.080(1)(c),” i.e. the rules under the present rulemaking.

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