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Centralized Markets Rulemaking: Third Public Comment Period (Informal)

TransAlta Energy Marketing U.S. ("TEMUS") appreciates the opportunity to comment on the Washington Department of Ecology's ("Ecology") draft rule language regarding imports from centralized markets in WAC 173-441 and 446.

TransAlta is an independent power producer, generation developer and wholesale energy marketer with operations in Canada, the United States, and Australia. In the western U.S. TransAlta owns and operates the 670 MW Centralia generation facility, the 68 MW Skookumchuck wind and hydro complex, the 140 MW Wyoming Wind plant, as well as a portfolio of projects in development.

As an electricity importer and generator and a covered reporting entity under the Climate Commitment Act, TEMUS is encouraged by Ecology's ongoing dialogue with industry to inform the rulemaking and appreciates Ecology's intent with the current rule-making to provide guidance to the market and a greater certainty around the interpretation of key elements of the policy framework.

In general, TEMUS encourages Ecology to adopt a approach which provides clarity, transparency, and predictability, allows market participants to hedge their exposure, and prevent unanticipated emission obligations assessed at verification.

Towards that end, TEMUS [offers the following key points]:

1. It would be premature to address leakage in the current rule-making;
2. Generic rulemaking could lead to misalignment;
3. Establish an industry advisory group;
4. Continue interim EIM obligation framework;
5. Forward-looking emission factor.

It would be premature to address leakage in the current rule-making.

There is a great deal of uncertainty in the western markets given the number of policy reform initiatives currently underway, including Ecology's linkage rulemaking, the California Air Resources Board's (CARB) Cap-and-Trade regulatory review, the Washington Utilities and Transportation Commission's (UTC) Climate Commitment Act (CCA) pre-rulemaking workshop series, and the California Independent System Operator's (CAISO) Greenhouse Gas Coordination working group. Leakage and linkage are connected issues, as the benefits of linkage also include reduced abatement costs, as well as fewer opportunities for emission leakage and free riders.

In addition, it is uncertain if CAISO's Extended Day Ahead Market (EDAM) and/or the Southwest Power Pool's (SPP) Markets+ will move forward, and if so, how exactly the design frameworks will be implemented, especially since the design for Markets+ is still evolving.

Given that any one of these initiatives could significantly impact leakage from Washington, as well as the fact that California's cap-and-trade program has yet to be officially extended past 2030 by the state legislature - it would be prudent to delay tackling this issue in rulemaking until some of this uncertainty dissipates, and at minimum, until CARB publishes their leakage studies and makes a determination as to a path forward.

Generic rulemaking could lead to misalignment.

Based on E3's Western Markets Exploratory Group (WMEG) Cost Benefit Study, it appears that the emergence of two day ahead markets (EDAM and Markets+) is very likely. Ecology's proposed framework endows the Market Operator with a great of discretion for interpretation, and this could lead to very different implementation of the rules in different markets, making it difficult to make informed dispatch decisions across markets. It is also possible that this discretion could result in a misalignment between Ecology's obligation and reporting rules.

Establish an industry advisory group.

Given the unique structure of the western power markets, including the importance of bilateral transactions and the complexity of multijurisdictional Balancing Areas, TEMUS strongly recommends that Ecology establish an advisory or working group to address implementation issues as they arise. When the CAISO's Energy Imbalance Market (EIM) was launched, a Regional Issues Forum (RIF) was created to allow stakeholders to discuss issues arising from operationalization, and a stakeholder working group could provide a similar function for issues arising from implementation of Ecology's CCA rules.

As noted above, it is possible that Ecology's proposed framework could result in very different attribution regimes as well as different reporting data among different markets. Given that compliance with Ecology's rules will depend on the availability and accessibility of reporting, covered entities will need guidance from Ecology – ideally interactive additional workshops with “real-life” examples of rule application – to address issues or ambiguities that arise.

Continue interim EIM obligation framework.

TEMUS recommends the current emission obligation framework for EIM continue until there is less certainty around related issues. The (current) proportional assignment to load of the emission obligation resulting from EIM is clear, transparent, and predictable, and continuing with the status quo would prevent additional framework amendments as the new day ahead markets operationalize and reforms in CAISO become clearer.

Given the unique complexity created by the misalignment between operating and policy boundaries for multi-jurisdictional balancing areas in the west, it would be worthwhile to test new rules incrementally to avoid disruption in the electricity markets and reduce liquidity.

Forward-looking emission factor.

The emission factor (EF) has a significant impact on the electricity market and TEMUS encourages Ecology to further discuss this element with stakeholders. In general, shifting the responsibility for the calculation of the emission factors to the Market Operator creates the very real possibility that the EF will differ across markets, which has a dampening effect on market competitiveness. Ideally, the EF should be consistent across markets.

Based on the presentation on October 16, it appears that Ecology is proposing a backward-looking emission factor that would apply to the previous year's transactions. Instead, TEMUS strongly advocates for the adoption of a forward-looking emission factor so that Market Participants can plan for and hedge their exposure. The uncertainty created by a backward-looking emission factor will significantly reduce liquidity at Mid-C, advantage Market Participants who are long carbon allowances, and create price volatility for end-use customers.

While TEMUS agrees with the suggestion from other stakeholders that a more dynamic emission factor could, in theory, better reflect market conditions, it is unclear whether the practical application would create better outcomes if the factors were not predictable and transparent. For instance, would the EF at 8:00PM be different for every day? Again, if EFs are not made available until after trades are

finalized the GHG adder could be significantly different from the final EF, and this uncertainty ex ante creates a price risk that cannot be hedged. In addition, it is unclear how dynamic emission factors would be audited or verified by Ecology, and the possibility of the verified EF differing from that at time of the transaction creates an unmanageable uncertainty.

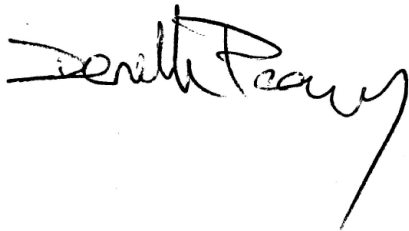
In addition, TEMUS recommends adjusting the proposed default emission factor of 1 MT CO_{2e}/MWh to a lower value, such as 0.428 MT CO_{2e}/MWh, that is also forward looking.

In closing, TEMUS recognizes the challenge in creating regulatory rules which are flexible enough to accommodate a range of possible market designs. However, TEMUS is concerned that this flexibility could inadvertently result in a misalignment in the application of these rules across different markets, as well as a misalignment between the reporting to Ecology and the compliance obligations determined by the Market Operator(s). Ideally, the rules provide guidance for a uniform approach.

TEMUS appreciates the comment opportunity and looks forward to continued engagement in Ecology's rulemaking.

Yours truly,

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