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Comments of the Western Power Trading Forum on Emissions Leakage

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to the Washington Department of Ecology
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The Western Power Trading Forum (WPTF) appreciates the opportunity to provide input to the Washington Department of Ecology (Ecology) on its consideration of emissions leakage in centralized electricity markets. WPTF's comments address a number of issues discussed in the Ecology background presentation and specific areas where Ecology indicated that is looking for feedback.

Characterization of Emissions Leakage. Ecology describes leakage as a "situation where out-of-state low- or non-emitting resources are assigned to Washington by a centralized electricity market operator's attribution algorithm to provide emission reductions but, in reality, higher-emitting generation "backfills" that electricity outside of Washington, resulting in net emissions that negate reductions."

This description is generally, but not quite, correct. Any program intended to incentivize GHG reductions in the electricity sector, be it cap and trade like the Climate Commitment Act, or a clean energy program like the Clean Energy Transformation Act, will have the effect of 'pulling' clean energy into the state and leaving higher emitting energy outside the state. This effect should not be considered leakage in and of itself, because it is the intended consequence of these programs. Rather Ecology should consider leakage to be the much narrower scenario occurs where there is shifting of clean energy (or the attribution within an organized markets) which results in a distortion of economic dispatch such that less emitting fossil generation within the state is replaced by higher emitting fossil generation outside the state. This situation has demonstrably occurred within the Western Energy Imbalance Market (WEIM) and would also occur in CAISO's Extended Day-Ahead Market (EDAM) and SPP's Markets+ if these markets are not designed to address such leakage.

Address one, two, or three markets? Ecology's rules need not address specific centralized markets. Rather Ecology's rules should establish conditions for when specified electricity can be imported into the state, without being treated as leakage. These provisions may be implemented differently within the expected three markets (EIM, EDAM and Markets+), but that should not be Ecology's concern. Rather the applicable Market Operator will determine the market design in consultation with stakeholders, taking into account requirements in Ecology's rules.

Mirror other jurisdictions or find different path? There are currently no provisions, other than the outstanding emissions calculation, in the program rules for the California cap and trade program. Given this, we encourage Ecology to take the lead in putting policy guardrails around emissions leakage by defining additional conditions for specified imports.

Are data going to be available? The market operators will have accurate, real-time information on generator characteristics, available capacity and on load of Washington and other balancing authority areas. This generation and load data is sufficient to implement mechanisms within the market design to address emissions leakage in line with regulatory and policy guidance from Ecology.

The data needed to retroactively assess the extent of emissions leakage and the effectiveness of mechanisms to address it will be an output of the market optimization itself. As WPTF stated in its earlier comments, we are confident of the willingness of both market operators to collect and provide data to

market participants for reporting, and to Ecology to enable enforcement and oversight of the program, including assessment of emissions leakage over time.

Are data going to be of sufficient quality? Data provided by the market operators will be of exceptionally high quality due to each market operator's 'eyes-on' all generating resources and loads within the market footprint. Additionally, guidance and cooperation from Ecology would ensure that the market operators calculate emissions factors and total emissions in a manner consistent with Ecology's rule.

Data transparency considerations in GHG reporting rules? WPTF believes that emissions data, including emissions factors, should be public and available to all market participants. However, data on dispatch of individual generators and specified import attribution must be kept confidential for a period of time following dispatch. Thus, it would be appropriate for the market operator to provide this information only to the resource operator and to Ecology.

Include threshold for taking action (e.g., administrative toggle)? WPTF believes that provisions to address specified import conditions that will not be considered emissions leakage must be included in the revised rule at adoption. However, if Ecology decides to include calculation for outstanding emissions to be assigned to Washington utilities, then such provisions should be triggered only if Ecology determines, based on assessment of data provided by the market operators, that significant emissions leakage has occurred. WPTF is optimistic that provision by Ecology of robust policy guidance and implementation by market operators of mechanisms to address leakage in line with this policy guidance will greatly reduce the potential for emissions leakage.

Attempt for unified approach to identifying surplus energy? WPTF reiterates that Ecology need not worry about potentially different approaches in the different organized markets, but should instead develop definitions of surplus energy that it considers appropriate in line with the Climate Commitment Act and other state policy goals. The market operator will then implement solutions in line with Ecology regulations.

Should Ecology include an outstanding emissions leakage calculation for centralized electricity markets in this rulemaking? WPTF does not believe that an outstanding emission calculation is necessary if Ecology established robust provisions to address emissions leakage. However, if Ecology does include an outstanding emissions calculation, it should only apply to energy that is imported in excess of specified import eligibility requirements (i.e. contracted and surplus energy). Additionally, such a calculation should only be required if retroactive assessment shows that significant emissions leakage has occurred.

How should resources committed to Washington load be treated? Energy committed to Washington load from a resource should be eligible to be imported as specified and not be considered emissions leakage.

How should EIM leakage be addressed during "interim" period? If Ecology continues to assign emissions for EIM imports to Washington load at the default emission factor, there will be no need to address emissions leakage until such a time that Ecology rules for resource-specific attribution go into effect. This is because, in the absence of resource-specific attribution and with the application of the default emission factor to all imports, there is no opportunity for the market optimization to displace internal gas generation with non-emitting imported energy.

Given the unsettled state of the Markets+ design process and tariff, how should design elements of that process be considered? WPTF reiterates that the market designs should follow regulator provided rules and policy guidance – not the other way around. Thus, the fact that *both* market design processes are still in flux (CAISO has restarted its EDAMGHG workgroup to consider potential tariff changes after market launch) is irrelevant. Ecology simply needs to establish appropriate regulatory conditions and policy guidance and expect both market operators to follow suit in their market designs.