

N/A Southwest Power Pool

Southwest Power Pool's Informal Comments - Third Public Comment Period

November 27, 2023

VIA ELECTRONIC SUBMISSION

Washington Department of Ecology
Air Quality Program
P.O. Box 47600
Olympia, WA 98504-7600

RE: Informal Comments Regarding Electricity Markets Rule (Chapters 173-441 and 173-446 WAC) – Third Public Comment Period

Southwest Power Pool (“SPP”) files these Comments in support of the Department of Ecology’s (“Ecology”) initiative to identify and establish compliance obligations for entities that import electricity into Washington from centralized electricity markets. This letter provides comments in response to Ecology’s request for input regarding leakage and other topics relating to Ecology’s wholesale electricity market rulemaking. SPP appreciates the opportunity to engage in the rulemaking process.

SPP is an Arkansas non-profit corporation with its principal place of business in Little Rock, Arkansas. As a Regional Transmission Organization (“RTO”) approved by the Federal Energy Regulatory Commission (“FERC”), SPP administers: (1) open access transmission service over approximately 72,000 miles of transmission lines covering portions of Arkansas, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wyoming, across the facilities of SPP’s Transmission Owners;¹ and (2) the Integrated Marketplace, a centralized day ahead and real-time energy and operating reserve market with locational marginal pricing and market-based congestion management.²

SPP is also the Market Operator for the Western Energy Imbalance Service Market (“WEIS Market”) in the Western Interconnection, a five-minute energy imbalance service market. The WEIS Market is operated on behalf of the entities that signed the Western Joint Dispatch Agreement. SPP also serves as Reliability Coordinator for certain utilities in the Western Interconnection.

¹ See *Sw. Power Pool, Inc.*, 89 FERC ¶ 61,084 (1999); *Sw. Power Pool, Inc.*, 86 FERC ¶ 61,090 (1999); *Sw. Power Pool, Inc.*, 82 FERC ¶ 61,267, *order on reh’g*, 85 FERC ¶ 61,031 (1998).

² See *Sw. Power Pool, Inc.*, 146 FERC ¶ 61,130 (2014) (approving the start-up and operation of the Integrated Marketplace effective March 1, 2014).

In the Markets+³ initiative, SPP will administer and operate a market that shares features of both the Integrated Marketplace and the WEIS Market by providing services to its market participants and facilitating transactions for the purchase and sale of electricity among those market participants. As a market operator, SPP collaborates with participating entities, serving as an interface between reliability and commercial functions in the Markets+ footprint. To assist in reliable operations and competitive wholesale electricity prices, SPP proposes to operate and administer energy and reserve markets.

Leakage and the Markets+ Design

Ecology requested comments regarding how Ecology should address emissions leakage in electricity markets. FERC also identified this same topic in its 2021 Notice of Policy Statement as one of six considerations “germane to the Commission’s evaluation” of any proposal to incorporate state-determined carbon-pricing program into a wholesale energy market.⁴ One of those considerations is “Would the filer’s proposal result in economic or environmental leakage? If so, how might the proposal address any such leakage?”⁵ In accordance with FERC’s Policy Statement, SPP is considering how the Markets+ design may result in economic and environmental leakage, and how the design can address the same.

The Markets+ design proposes to reduce emissions leakage through (1) the use of a GHG Adder in market participant offers and (2) utilization of a threshold method. The costs of compliance (the “GHG Adder”) with a GHG pricing program will be included in energy offers assigned to Washington load. For resources outside of the GHG Zone, a market participant may identify a threshold, which is the point in the resource’s dispatch above the market participant’s requirements to serve its own load. The identification of a threshold limits surplus available to the GHG Zone to the amount of energy above the threshold. Therefore, it will be unnecessary for the market to “backfill” with a higher emitting resource because the energy available to the GHG Zone will be the amount in excess of the Non-GHG Zone’s requirements.⁶ While the Markets+ design cannot eliminate leakage, the Markets+ design is an effective method to *reduce* leakage in the wholesale marketplace.

³ A western energy market in which participants are not required to join the RTO to participate. See <https://www.spp.org/western-services/marketsplus/>.

⁴ *Carbon Pricing in Organized Wholesale Electricity Markets*, 175 FERC ¶ 61,036, at P 21 (2021) (“Policy Statement”).

⁵ *Id.*

⁶ SPP’s Greenhouse Gas Task Force has not yet approved a specific threshold method. SPP anticipates that a threshold method will be approved prior to Washington’s final rulemaking.

Ecology's Questions for Comment

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

The “outstanding emissions leakage calculation” concept is derived from the California Air Resources Board (“CARB”) regulations. The regulations provide how the outstanding emissions are calculated each year:

‘EIM Outstanding Emissions’ equals ‘Total California EIM Emissions’ less the sum of ‘Deemed Delivered EIM Emissions’ as reported by EIM Participating Resource Scheduling Coordinators in section 95111(h)(1)(C) for a data year.⁷

The outstanding emissions calculation quantifies emissions resulting from unspecified resources.⁸ The Markets+ design, which includes a GHG Adder for unspecified pathway market electricity, will calculate the ongoing compliance obligation for energy from unspecified resources. Importing unspecified pathway market electricity to Washington will result in a cost for complying with the cap-and-invest program, and that cost will be reflected in the cost of serving load in Washington through its own GHG Adder. This GHG Adder is important for SPP’s market clearing process to accurately reflect the costs of assigning unspecified pathway market electricity to Washington. Therefore, while the outstanding emissions calculation may be necessary to accommodate other markets, and while the calculation *could* be performed for unspecified pathway market electricity derived in Markets+, the calculation is unnecessary in the context of Markets+.

2. *Should Ecology follow CARB's suggestion and focus such a calculation on electricity below the market counterfactual run?*

SPP takes no position on whether Ecology should follow the CARB calculation method. If Ecology chooses to mirror other jurisdictions, SPP requests that Ecology consider any shortcomings that may exist in such jurisdictions and modify its path to avoid limitations known to be present in other jurisdictions.

3. *How should resources committed to Washington load be treated?*

SPP posits that, at this time, it would be inappropriate for SPP to recommend a specific regulatory approach with respect to treatment of resources committed to Washington load. SPP requests that Ecology provide additional clarification on this issue and permit additional time for comments.

⁷ 17 CA Code of Regs 95111(h)(1)(A).

⁸ In the Markets+ design, unspecified resources are resources that offer energy into the market, but do not voluntarily comply with Washington’s cap-and-invest program.

4. *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?*

At this time, SPP takes no position on issues specific to the EIM market under Ecology's rules.

5. *If Ecology includes this calculation, should it be considered only a placeholder until such time as actual market data are available?*

At this time, SPP takes no position on issues specific to the EIM market under Ecology's rules.

6. *How should the Markets+ design process and tariff be considered?*

SPP anticipates filing its proposed GHG design with FERC in the first quarter of 2024, which will most likely occur before Ecology finalizes the centralized electricity markets rulemaking. That said, how the state of Washington, through the Department of Ecology, chooses to address GHG emissions is a matter within the state's jurisdiction.⁹ The Markets+ design will, subject to approval by FERC, provide a mechanism for market participants to recover their mandatory GHG compliance costs. SPP recognizes the evolving landscape with respect to GHG programs. SPP is prepared to revise the Markets+ Tariff through the stakeholder process, as necessary, and submit to FERC to account for Ecology's final rulemaking.

Ecology's "Key Considerations"

In its November 8, 2023, presentation, Ecology set forth seven "key considerations for addressing leakage." Below is SPP's position on each respective "consideration."

"Address one, two, or three markets?"

SPP posits that Washington's rulemaking should not cater to any one market in particular, but instead should stand on its own in such a way that enables any market to apply Washington's state-determined carbon pricing to a wholesale market. SPP recognizes and appreciates Ecology's efforts to create rules that may be implemented by any market.

"Mirror other jurisdictions or find a different path?"

SPP takes no position on whether Ecology should mirror other jurisdictions or find its own path. If Ecology chooses to mirror other jurisdictions, SPP requests that Ecology consider any shortcomings that may exist in such jurisdictions and modify its own path to avoid limitations known to be present in other jurisdictions.

⁹ See Policy Statement at P 21; see also "[T]he department, in consultation with the department of commerce and the utilities and transportation commission, shall adopt by rule a methodology for addressing imported electricity associated with a centralized electricity market[.]" RCW 70A.65.080(1)(c).

“Are data going to be available? / Are data going to be of sufficient quality? / Data transparency considerations in GHG reporting rules?”

SPP is prepared to make data available to Ecology and expects that data will also be available from market participants. As to whether the data will be of “sufficient quality,” the sufficiency of any data would be properly determined by Ecology, rather than by SPP. SPP welcomes guidance from Ecology on what particular data or transparency considerations would best accommodate Ecology’s program.

“Include threshold for taking action (e.g., administrative toggle)?”

SPP posits that it is not within SPP’s purview to recommend a specific regulatory approach with respect to the effective date of Washington’s leakage program. As described above, Markets+ is designed to reduce leakage in the wholesale marketplace. As SPP noted in its second informal comments, SPP is required to include all rates in its Tariff before those rates may be implemented. Thus, in the event that the Ecology approach to leakage involves costs to the wholesale marketplace, SPP suggests that an administrative toggle may be appropriate to allow time for such rates to be considered in the Markets+ Tariff via SPP’s stakeholder process.

“Attempt for Unified Approach to Identifying Surplus Energy?”

Ecology’s comment may indicate a preference for a “unified approach to identifying surplus energy” among energy markets. Such an approach would likely be difficult, if not impossible, to effectively implement across markets. For example, if SPP and CAISO attempted to implement a market-to-market program with respect to surplus energy, SPP would have no real-time visibility into CAISO’s system, nor would CAISO have such visibility into SPP’s system. This would likely lead to either (1) each market operator stepping on the other; or (2) each market operator being overly cautious, and thus inefficient, in its commitments in order to avoid stepping on the other. Although SPP appreciates Ecology’s creative approach to identifying surplus energy, SPP posits that a unified approach to identifying surplus energy between two independent market operators is infeasible.

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Conclusion

SPP appreciates the opportunity to converse with Ecology regarding these important topics. SPP stands ready to offer additional comments to assist Ecology in the development of its rules. SPP supports Ecology's rulemaking initiative and intends to participate meaningfully and constructively in the process.

Sincerely,

/s/ Kim O'Guinn

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