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VIA ELECTRONIC SUBMISSION

Attention: Gopika Patwa, Rulemaking Lead
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RE: Comments on Draft Rule Feedback Meeting in Electricity Markets Rulemaking (Chapters 173-441 and 173-446 WAC)

The California Independent System Operator Corporation (ISO) submits these comments in response to the Department of Ecology's (Ecology) January 24, 2024 Draft Rule Feedback Meeting and the associated draft language. The ISO appreciates the work that Ecology has done to incorporate stakeholder feedback in earlier rounds of comments and sees this new draft as the most complete yet. The ISO offers two additional suggestions and requests for Ecology as staff consider the next iteration of the proposed rule.

I. The ISO seeks more specificity on the new “deemed market importer” framework.

Ecology's new proposed rules remove the concept of the “first jurisdictional deliverer” in favor of a seemingly new framework utilizing a “deemed market importer.” The ISO understands the continued interest of Ecology to have a broad and potentially evergreen framework that can encompass many market operators. However, the ISO is concerned that an overly broad rule around the identification of the entity with the compliance obligation misses a critical opportunity for Ecology to further define its own emissions regulations. This revision in particular appears only to change the terminology and not the framework, which still ultimately defers to the market operator to identify the entity with the compliance obligation. The ISO asks Ecology to more specifically identify which entity, for example, the generation resource, is considered the “deemed market importer” for transactions in a centralized energy market. Doing so will provide certainty to market participants. As the ISO has explained in prior comments in this rulemaking, the ISO's Extended Day Ahead Market (EDAM) Greenhouse Gas

(GHG) framework provides an avenue for Ecology to identify the participating resource scheduling coordinator as the compliance entity, but the ISO also seeks specific confirmation of this resource-specific approach for the ISO market in the rulemaking.

On Ecology's January 24, 2024 call ("January Call") the ISO suggested to Ecology that it could provide additional details or examples in the regulation specific to each currently known market. Much like Ecology has identified an interim solution in the regulations calling out the approach for the Western Energy Imbalance Market (WEIM) for the first compliance period, Ecology could provide an example of which entity would be considered the "deemed market importer," either for all markets, or in a list form specific to each market. In the alternative, the ISO recommends Ecology utilize related opportunities, such as the brief description of the rulemaking included in the CR-102 filing or in the Rulemaking Order (CR-103) form to give specificity to the deemed market importer. This will allow the ISO and other market operators and market participants to point to Ecology's interpretation of the the rules in their own processes.

II. The ISO recommends Ecology clarify the intent and application of surplus, explains that the definition of surplus could impact quantities made available to Washington versus California, and clarifies that the California Air Resource Board's Outstanding Emissions Calculation does not calculate surplus.

The ISO recommends Ecology clarify the intent and application of surplus, the process for developing the methodology, and provide stakeholders the opportunity to collaborate on the final methodology. The ISO understands the definition of surplus as pertaining to the Markets Plus design. However, depending on the final language and calculation methodology, there could be spillover impacts to EDAM and thus the ISO requests further refinement of the intent in the rulemaking and suggests a stakeholder process to develop the final calculation methodology.

The ISO is concerned that the definition of surplus provided by Ecology could result in unintended consequences in the market, such as different quantities of GHG bids being available to Washington compared to California or other states that may develop a carbon pricing program in the future. For example, if a resource owner in Idaho had a 100MW resource, but under Ecology's rules only 60MW was considered surplus, the Idaho resource maximizing its offer could offer 100MW to California but only 60MW to Washington. This could put upward pressure on prices for Washington as fewer GHG MW bids would be eligible to Washington. In addition, from an IT perspective, this could mean that even if Washington and California were linked, outside resources would still see two GHG bid adders as there would be a difference in the quantity offered into Washington compared to California.¹

¹ Note that in the ISO's market a GHG bid adder is comprised of both a dollar amount and a MW quantity.

In response to the Ecology's January Call in which staff stated that California has addressed surplus as a result of the California Air Resources Board (CARB) Outstanding Emissions Calculation. The ISO clarifies that the calculation is a tool used by CARB and implemented to account for potential leakage. Currently, the Outstanding Emissions Calculation calculates the difference between total WEIM emissions and the total deemed, or attributed, California WEIM emissions. The difference results in the retirement of a portion of otherwise freely allocated allowances to California utilities. These outstanding emissions are apportioned to WEIM purchasers based on their share of retail sales. In summary, the calculation is not an attempt at quantifying surplus, but rather allows CARB to ensure that California utilities participating in the ISO's market are accounting for potential leakage.

III. Conclusion

The ISO appreciates the opportunity to submit comments and to participate in Ecology's stakeholder calls. These are important topics for Ecology to consider and discuss with stakeholders. The ISO looks forward to ongoing discussions in this rulemaking.

Sincerely,

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