Puget Sound Energy

December 13, 2024

Attention: Adam Saul, CFS Rule Lead
Department of Ecology
Climate Pollution Reduction Program
P.O. Box 47600
Olympia, WA 98504-7600

RE: PSE informal comments on Ecology's Clean Fuel Standard updated draft rules revising Chapter 173-424 of the Washington Administrative Code

Puget Sound Energy, Inc. (PSE) serves approximately 1.2 million electric and 900,000 natural gas customers across 6,000 square miles in Western Washington. PSE appreciates the opportunity to comment on The Department of Ecology's (Ecology) updated informal draft rules, in which Ecology has proposed changes to address indirect accounting, as well as other changes intended to support prices in the Clean Fuel Standard (CFS) credit market.

In alignment with the Washington State Department of Ecology's (Ecology's) Draft Clean Fuel Standard (CFS) Guidance document on allowable uses for credit revenues, PSE intends to invest CFS revenues in programs and projects in its electric service area that further promote transportation electrification in Washington State. Residential electric vehicle (EV) charging credit revenues in particular will be used to augment PSE's existing Transportation Electrification Plan and maximize greenhouse gas reductions. PSE is concerned the Washington, Oregon, and Idaho renewable energy credit (REC) market cannot alone support the demand for attributes across all of Washington's clean energy programs in the near term, creating sufficient drivers for the development of new renewable generation in the Pacific Northwest. Additionally, Ecology's rules related to the qualifications for book-and-claim accounting of electricity to lower the carbon intensity (CI) of electricity claimed as a vehicle fuel in the clean fuels program will disadvantage electricity as a clean transportation fuel and will jeopardize the ability of utilities to invest in additional transportation electrification projects in Washington State. Lastly, PSE believes it is premature to restrict the utilities use of RECs until Ecology has had an opportunity to observe the effects of the other measures in these rules and the utilities have more certainty about their ability to invest in transportation electrification projects in alignment with the Residential EV Charging Credit Revenue Requirements.

The Washington, Oregon, and Idaho REC market cannot alone support the demand for renewable attributes across all of Washington's clean energy programs in the near term

Beginning in 2026, Ecology is proposing to restrict the use of RECs to lower the CI of electricity in two ways:
1) requiring RECs to be generated by projects located in Washington, Oregon, or Idaho as opposed to the current criteria which includes projects in the entire Western Electricity Coordinating Council

(WECC), and

2) requiring RECs to be generated with vintages of January 2023 or later by projects that commence operation on or after January 1, 2019.

According to the Energy Information Administration (EIA) , only about 2,300 megawatts of wind and solar nameplate generation would meet that criteria, if those projects were generating RECs as of January 2023. That is approximately 7 million RECs per year, assuming an average capacity factor of thirty percent. If you expand your boundaries to include Arizona, Colorado, Montana, Nevada, New Mexico, Utah, and Wyoming (most of the WECC, excluding California), you increase the number of RECs potentially available to about 44.5 million per year. Clean energy standards, voluntary renewable electricity programs, corporate goals, and clean energy tariffs likely consume most, if not all of that supply. The EIA also reports another 3,600 megawatts of renewable generation that would meet Ecology's proposed standards under development, or approximately 9.5 million additional RECs, if those projects come to fruition. Expanding across the WECC, excluding California, increases the potential new supply to about 55 million RECs per year.

PSE's demand for Clean Energy Transformation Act (CETA)-eligible energy alone in 2025 was forecast to be roughly 11 million megawatt-hours according to its 2023 Biennial Clean Energy Implementation Plan Update, and relied upon new planned wind and solar .

Ecology should consider extending the provision in its rules to include projects in the WECC until 2028 to allow time to observe the myriad factors affecting the REC market. Alternatively, Ecology could consider phasing in the locational requirement to provide sufficient time for new REC supply to be developed that is not already accounted for by Washington's other clean energy policies or Oregon's clean energy policies. One example might be to require that twenty percent of RECs used by a utility to lower its CI are generated by facilities located in Washington, Oregon, or Idaho beginning in 2026, increasing ten percent per year until 100 percent is reached. Creating a more realistic pathway to achieving Ecology's goal of incentivizing local investment in new renewable generation provides utilities more certainty about their ability to maximize credit revenues and invest in additional transportation electrification projects

Ecology's rules related to the qualifications for book-and-claim accounting of electricity to lower the carbon intensity (CI) of electricity claimed as a vehicle fuel in the clean fuels program will disadvantage electricity as a clean transportation fuel and will jeopardize the ability of utilities to invest in transportation electrification projects in Washington State

Utilities look for unique opportunities to use RECs to generate additional credits under the CFS in order to direct investment into transportation electrification. Under current market conditions, it remains narrowly economic for electric utilities to participate in the CFS through the REC retirement given the differential in the REC and CFS credit price. However, if Ecology were to impose even more stringent requirements, further narrowing the availability of RECs, it would only serve to reduce the likelihood even further of participation through the use of RECs. This creates a disadvantage for providers of electricity as a transportation fuel relative to other credit generators and limits the amount of funding PSE can invest in grants or other programs that advance the state's transportation electrification goals.

The REC market is not lacking a driver for the development of further renewable generation in the Pacific Northwest

PSE is concerned that Ecology's proposal to require RECs used to lower a utility's CI be generated in Washington, Oregon, or Idaho will exacerbate the existing shortage in Pacific Northwest renewable resource supply. In its December 4, 2024 workshop, Ecology stated its additionality provisions for RECs used to lower the CI of electricity used as transportation fuel were intended, in part, to "promote further renewable electricity generation in the Pacific Northwest". As explained earlier in these comments, the demand for renewable generation in the Pacific Northwest far exceeds the available supply due to the presence of CETA. Furthermore, the demand for renewable generation and RECs from large energy buyers in the region provides long-term support for Pacific Northwest resources that, in many cases, is not captured by utility forecast needs.

Conclusion: It is premature to restrict the utilities use of RECs until Ecology has had an opportunity to observe the effects of the other measures in these rules, the effects of REC demand arising from other state requirements such as CETA, and the effects of the purchasing activities of deficit generators seeking to comply

PSE appreciates the opportunity to comment at the conclusion of Ecology's informal stage and respectfully asks Ecology to consider the impacts to the electric sector and investments in transportation electrification in its November 26, 2024 updated draft rules and delay the limiting requirements proposed for RECs used to lower a utility's carbon intensity. Such a delay will allow time to observe the effects of the other changes in its rule, the impacts of CETA on the REC market, and the effects of deficit entities purchasing credits to comply over a longer period. PSE looks forward to continued discussion on these matters over the course of this rulemaking.

Sincerely,

/s/ Malcolm McCulloch
Malcolm McCulloch
Manager, New Products and Services
Puget Sound Energy
PO Box 97034, BEL10W
Bellevue, WA 98009-9734
(425) 456-2785
malcolm.mcculloch@pse.com

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pse.com

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[1] EIA Preliminary Monthly Electric Generator Inventory - Preliminary Monthly Electric Generator Inventory (based on Form EIA-860M as a supplement to Form EIA-860) - U.S. Energy Information Administration (EIA)
[2] Excluding hydroelectric generation due to the limited amount of RECs that are produced by that resource type until 2029.
[3] PSE CEIP Library – Chapter 2: Updating the Clean Energy Targets
[4] WAC 173-424-630(5)(c)

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