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Department of Ecology
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**RE: Potential Agency Request Legislation on Carbon Market Linkage
Cap-and-Invest Bill (commentinput.com)**

Mr. Martland:

On December 11, 2023, the Washington Department of Ecology (Ecology) provided notice (December 11th Notice) that it has added additional information about its policy proposals regarding its request to amend the Climate Commitment Act (CCA) to facilitate linkage. Avista Corporation, dba Avista Utilities (Avista or the Company) appreciates the opportunity to submit additional comments on Ecology's proposals.

As Avista stated in its comments on the issue of carbon market linkage dated November 1, 2023 (November Comments), Avista supports efforts to fully link Washington's carbon market with the California-Quebec market. Full linkage should reduce compliance cost pressures and achieve efficiencies through streamlined auction and administrative functions. Avista supports Ecology's efforts to provide the best design, and effective implementation of, the CCA.

A. General Comments – “True Up” Calculation

Uncertainty regarding how the annual true-up is to be calculated underlies many of Avista's concerns regarding the CCA, including Ecology's proposals to facilitate the linkage with the California-Quebec market. For this reason, Avista urges Ecology to clarify the annual true-up calculation.

Clarity is required for the annual true up to provide utilities an appropriate timeframe to modify operations. The calculation used for the initial allocation of no-cost allowances is currently based on the resources that each utility uses to serve retail electric load. *See* WAC 173-446-230(Eq. 230-1). In contrast, the enforcement mechanism for compliance is based on a formula that accounts for all resources utilized within the utility's overall portfolio, including wholesale transactions. *See* WAC 173-441-124(Eq.124-9). Ecology should clarify that the formula for the annual true up will be

consistent with the standard to which a utility is ultimately being held responsible for and, therefore, will account for all resources utilized by the utility WAC 173-441-124.

Limiting the calculation to only retail load, significantly underestimates actual resource needs to meet those needs. To reliably serve load, utilities are required to, among other things, provide reserves, balance their systems¹, and optimize their resources². Electricity is traded on a day ahead, real time (hourly) and even five-minute markets. In the day ahead market, Avista estimates the load requirement for the next day, or for the next weekend, based on several factors that help to determine the optimal resource mix to meet that load. Since forecasts are estimates in and of themselves, there will never be a situation where the forecast load amount required by customers is perfect. However, given the electricity system must be “balanced” (meaning the supply of generation equals the amount of demand) on an hour to hour, and even minute to minute basis (actually every 4 seconds), market transactions are needed to effectively true up the previous days estimate. As a regulated Utility, Avista must ensure that its obligation to serve is met, and market transactions are a critical component in balancing available generation and load.

In addition to meeting load needs, Avista may optimize resources when they are not used to serve load. Should there be circumstances where generation is not needed to meet load, generation from Avista’s resources may be sold into wholesale markets and the benefit of those sales will flow back to customers. These benefits offset costs of generation units themselves and represent Avista being the best stewards of resources for our customer-owned assets. The utility’s customers always have and will continue to benefit from such optimization in the form of reducing retail rates, or looked at differently, customers will experience higher retail rates if optimization is limited or eliminated. Absent inclusion in the true up mechanism and/or definition of retail load, the amount of wholesale market sales will drastically decrease due to increased allowance costs for those sales, and result in increased retail rates for customers. In short, wholesale market transactions are an essential part of serving retail electric load and keeping retail rates affordable.

Avista therefore respectfully requests that Ecology clarify how the annual true up will be calculated considering the impacts on retail rates. This clarification is necessary to ensure that the true up fully accounts for all resources *servicing* Avista’s retail electric load and not just that portion of resources *delivered to* Avista’s retail electric load.

B. Compliance Periods

In its December 11th Notice, Ecology stated that it is proposing revisions that will “authorize Ecology to revise Washington’s compliance periods as needed to ensure that Washington’s compliance periods are synchronized with the compliance periods of linked jurisdictions.” Ecology further notes that the compliance periods in the California-Quebec market are currently in flux.

Avista generally recognizes that there may be reasons to synchronize Washington’s compliance periods with linked jurisdictions. However, the purpose of Washington’s current four-year compliance period is to normalize hydroelectric operation. The four-year compliance period is necessary to provide sufficient time for weather and prescription factors to represent more accurately

¹ In accordance with North American Electric Reliability Corporation balancing standards.

² In this regard, the Washington Transportation and Utility Commission requires Avista to fully optimize its assets to serve customers in the most cost-effective manner.



what may be expected in the future.

Avista is concerned the compliance periods that are ultimately adopted in the California-Quebec market may not provide sufficient time to normalize hydroelectric operation. A four-year window provides a sufficient opportunity to modify operations when needed in a timely manner. Given the lack of clarity in the true up methodology, this could result in an additional allowance obligation dependent upon resource allocation. To the extent that the four-year compliance period can be retained, Avista supports synchronizing Washington's compliance periods with linked jurisdictions. To the extent that synchronizing Washington's compliance periods with linked jurisdictions results in a shorter compliance period, Ecology should seek further comment from Washington utilities to determine whether such shorter compliance periods are practical under the CCA.

The simplest means to make Avista and other hydro entities indifferent to the number of years in the compliance period is to: 1) clearly define how the true up between the forecast actual operations is performed and 2) ensure the true up provides greater (or fewer) allowances accounting for variations in hydro and other operations during a single compliance year.

C. Electricity Imports (RCW 70A.65.010(27)):

In the December 11th Notice, Ecology states that it “proposes that all importers of unspecified electricity be covered entities, regardless of the amount of unspecified electricity they import.” Avista appreciates Ecology's proposal. As written, it is unclear to Avista what the definition represents. Additional clarification is needed in this section to ensure consistent application.

D. Removing requirement that “netting” be reported (RCW 70A.65.010(42)(d)).

In the December 11th Notice, Ecology notes that the definition of “imported electricity” excludes “electricity imports of unspecified electricity that are netted by exports of unspecified electricity.” Ecology proposes to remove this definition from the definition of “imported electricity.”

It is imperative that Washington continue to permit utilities to track and report “imports of specified electricity that are netted by exports of unspecified electricity.” This preserves a fundamental tenet of emissions accounting that only electricity consumed or generated within Washington is covered under CCA and excludes both electricity that has been “wheeled” through Washington but not generated or consumed within Washington, and counter-flowing power schedules in the same hour. Ecology should preserve the “netting” calculation and allow utilities that choose to report to do so. Allowing utilities to report imports netted against exports is essential to ensure proper and accurate accounting of covered emissions associated with electricity.

E. Allowance purchase limits for covered entities (RCW 70A.65.100 (6)(a)).

In the December 11th Notice, Ecology states that it proposes to amend “the CCA to increase Washington's purchase limit to 25%.” Avista continues to support its initial November Comments that increased purchase limits should not be permitted until Washington has executed a linkage agreement and holds joint auctions with California and Quebec. As Avista stated in its November

Comments:

At this time (less than a year into implementation of the CCA) the stability of Washington's allowance market is still uncertain. Results over the first three quarters of implementation of Washington's program suggest a scarcity of allowances resulting in high settlement prices. Increasing the Washington purchase limits to 25 percent of allowances available in each auction would increase the prospect of market distortion and could put further upward pressure on allowance prices. Moreover, increasing the purchase limits to 25 percent would allow as few as four large entities to purchase all of the available allowances in a given auction. The increased purchase limits could effectively squeeze out small-to-mid-size covered entities from acquiring allowances in each quarterly auction. The result would be covered entities would be forced to purchase allowances in the secondary market at higher prices than those with larger holdings.

If Washington enters into a linkage agreement with California and Quebec, the allowance pool will be substantially larger and less prone to market distortions that might occur from purchases by a relatively small number of large bidders. Accordingly, Washington should wait to increase in its purchase limits to 25 percent until after Washington has executed a linkage agreement, and is holding joint auctions, with California and Quebec. In the event linkage with California and Quebec is not effectuated, the purchase limits presently in the law should be preserved.

F. Washington Greenhouse Gas emissions reporting requirements (RCW 70A.15.2200)

The potential modifications to this section of rule are unclear and may result in unintended consequences. As such, Avista proposes no changes to this provision of the statute until such time as clarity can be captured.

G. Other Potential changes Ecology may consider

Avista thanks Ecology for providing an opportunity to comment on these critical issues, including Ecology's proposals in its December 11th Notice. Avista looks forward to working with Ecology and others to ensure the CCA stands as an effective program for advancing meaningful, cost-effective carbon reductions while avoiding unnecessary adverse impacts on customers.

Sincerely,

/s/ Kevin Holland

Kevin Holland
Director of Energy Supply
Avista Corporation

