Kassie Markos

Submitted on behalf of Puget Sound Energy.

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Submitted via Web Portal

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Climate Pollution Reduction Program

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RE: 2024 Agency Request Legislation: Carbon market linkage with California & Quebec

The following comments are submitted by Puget Sound Energy (PSE) in response to the Washington State Department of Ecology's (Ecology) socialization of agency request legislation for the 2024 legislative session. PSE is a signatory to and supports the comments submitted by the Joint Utilities focused on Local Distribution Company (LDC) issues. Additionally, PSE is supportive of the comments made by the International Emissions Trading Association (IETA).

PSE is an investor-owned utility providing service to more than one million electric customers and more than 900,000 natural gas customers in Western Washington. In 2021, PSE set an aspirational goal to be a Beyond Net Zero Carbon company by 2045 – targeting to reduce our own carbon emissions to net zero and going beyond by helping other sectors to enable carbon reduction across the state. In alignment with our beyond net zero aspirations, PSE supported the passage of the Climate Commitment Act (CCA) and has dedicated substantial resources and time to engage with, implement and ultimately comply with the program.

PSE is supportive of linking Washington's cap-and-invest program with the carbon market of California and Quebec. PSE applauds Director Watson's decision to pursue linkage and ensure Washington's continued leadership on climate policy and partnership with other leaders in North America. Ecology's preliminary analysis report determined that linkage would provide substantial benefits including lower allowances prices and greater price stability. And, as noted in IETA's comments, "linked programs can expand abatement opportunities into the market, prompt technological innovation, improve liquidity, and ultimately result in [achievement of] greater emissions reductions, more cost effectively." For these reasons, PSE supports linkage of the Washington, California and Quebec programs. We appreciate the thoughtful work that Ecology has undertaken to evaluate linkage and identify areas for policy alignment to date but understand that more work is on the horizon including future statutory and regulatory updates. Please see below for PSE's initial feedback as part of this process.

PSE is providing comment on select items that Ecology has identified in their initial communications regarding agency request legislation. PSE supports consideration of the following issues, as described below, as Ecology develops agency request legislation:

- Allowance purchase limits for covered entities: PSE supports increasing Washington's allowance purchase limit from 10% to 25% for purposes of consistency across the jurisdictions considering linkage.[1] Increasing the purchase limit, and other similar changes made to facilitate linkage, should be made as soon as possible to signal Washington's intent to link and evolve the program.

- Electric no-cost allowances tied to balancing the bulk electric system: PSE is supportive of a mechanism through the electric forecast process or the allowance allocation adjustment mechanism to capture emissions and allocate no-cost allowances associated with balancing services for the bulk electric system. [2] PSE's legacy natural gas generation provides important balancing reserves for Washington that enable the integration of intermittent resources and provide stability to the grid during peak demand events. PSE's electric customers should receive no-cost allowances to account for these necessary services given the statutory intent to mitigate the CCA's cost on electric customers.[3]

- Confidentiality and transparency: PSE believes there should be an exception for regulated entities to disclose past market participation and historical purchases with regulators like the Washington Utilities and Transportation Commission (WUTC) and the Securities and Exchange Commission (SEC). This is needed as the CCA places material compliance obligations and financial impacts on PSE that need to be disclosed to economic and financial regulators. Disclosures at the WUTC can be made confidentially but some level of transparency is needed for required disclosures made with the SEC (10-Q and 10-K reports) due to materiality considerations. PSE understands why future auction participation, bidding strategy, and other elements are prohibited and should continue to be prohibited.

- National Security Emissions: In implementation, PSE has found that national security facilities that receive natural gas service are not universally coded as '92811 - national security' as part of the North American Industry Classification System (NAICS).[4] Rather, national security installations have dozens of meters with a variety of classifications capturing the generic building use type other than '92811.' PSE would suggest broader national security facility language replace the one NAICS code as currently used in statue to ensure national security facilities and their emissions are properly addressed in implementation.

- Washington-specific GHG reporting platform: PSE requests that Ecology, in developing a new GHG reporting platform, model it after EPA-eGGRT with only minor modifications to

[1] RCW 70A.65.100(6)(a)
[2] WAC 173-446-230 (2) (f) (g)
[3] RCW 70A.65.120 (1)
[4] RCW 70A.65.080 (7) (f)

accommodate WAC 173-441 and EPA Mandatory Reporting Rule (MRR) 40 CFR Part 98 differences.

The following items were not included on Ecology's list of potential issues to be addressed in potential legislation. PSE requests further consideration of these issues as Ecology develops agency request legislation to facilitate linkage and address other program 'housekeeping' items:

- Allowance Price Containment Reserve (APCR) trigger percentage: PSE encourages Ecology to consider lowering the APCR Trigger Price from 100% of Tier 1 prices to 60% of Tier 1 prices in alignment with California's practices. We believe this could help with both cost containment for customers and program alignment for purposes of linkage.

- B&O tax: PSE requests clarifying language to exempt no-cost allowances from application of the state Business & Occupation (B&O) tax. Currently, the Washington Department of Revenue has interpreted that the state B&O tax applies to income earned from selling, transferring, trading, or retirement of no-cost allowances which is then passed onto customers. We do not believe that the CCA intended that no-cost allowances, specifically allocated for the benefit of customers, be taxed in such a manner. PSE requests greater clarity in statute in the interest of ratepayer protection.

- Leakage study: PSE requests that Ecology consider completing a leakage study in a manner similar to the leakage study CARB is undertaking now for the electric sector.[5] Such a study could provide more data and certainty around what constitutes environmental leakage, including an understanding of 'directly attributable' as defined in the CCA, as organized day-ahead markets are designed and GHG policy is considered for these markets (EDAM and Markets+). As the region considers increased activity in centralized electricity markets, market GHG frameworks should attempt to minimize costs for customers by focusing on measurable, impactful increases in emissions outside the state that are directly attributable to the program. For reference, joint comments from the Public Generating Pool (PGP) and PSE submitted on 10/30 in response to the Electricity Markets Rulemaking address the concept of leakage in further detail. Overall, PSE believes that leakage is an important topic for further consideration.

- Netting optionality: PSE requests that optionality be preserved to allow for, but not require, reporting of 'electricity imports of unspecified electricity that are netted by exports of unspecified electricity' under certain circumstances. While PSE understands the logic around harmonizing regulations with California, we have found that there is a value to netting as it relates to accuracy and reduced compliance obligations in the interests of our customers. If a change to netting is made as proposed, additional no-cost allowances will need to be allocated to electric utilities in recognition of an increase in imported unspecified electricity and an

[5] California Assembly Bill 398: Sec. 4 (2) (I) Report to the Legislature, by December 31, 2025, on the progress toward meeting the greenhouse gas emissions reduction targets established pursuant to Sections 38550 and 38566 and the leakage risk posed by the regulation. The state board shall include recommendations to the Legislature on necessary statutory changes to the program to reduce leakage, including the potential for a border carbon adjustment, while maintaining the state's ability to reach its targets.

obligation to mitigate cost burden on electric customers per statute. This will need to be considered through the allowance allocation adjustment mechanism for electric utilities.[6]

Puget Sound Energy appreciates the opportunity to provide comment on the items that Ecology has proposed thus far and additional items for consideration in 2024 agency request legislation. We look forward to future opportunities to engage in these conversations. Moving forward, PSE encourages Ecology to continue working closely with both technical staff and management in California and Quebec to facilitate successful linkage of programs.

Please reach out to Kassie Markos (kassie.markos@pse.com) if you have questions about these comments.

Sincerely,

/s/ Matt Steuerwalt

Matt Steuerwalt

Senior Vice President, External Affairs

Puget Sound Energy

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[6] WAC 173-446-230 (2) (f) (g)