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September 27, 2024

Nikki Harris
Department of Ecology
Climate Pollution Reduction Program
P.O. Box 47600
Olympia, WA 98504-7600

Re: Chapter 173-441 and 173-446 WAC, Cap-and-Invest Linkage Rulemaking

Dear Ms. Harris,

Avista Corporation (Avista) is an electric and natural gas utility headquartered in Spokane, Washington. We serve more than 415,000 electric utility customers and about 382,000 natural gas customers in multiple states, with more than 60 percent of sales occurring in Washington. Avista's electric utility and natural gas distribution company are covered entities under Washington's cap-and-invest program, the Climate Commitment Act (CCA).

We appreciate the opportunity to provide comments on proposed rules to facilitate the option of linking Washington's carbon trading market with the California-Quebec market, including implementing the provisions of Engrossed Second Substitute Senate Bill 6058 passed during the 2024 legislative session. Avista remains committed to being an active participant in an effective, well-functioning carbon reduction program, and generally we support the pursuit of linking Washington's program to the California-Quebec markets, which could offer efficiencies and stability to Washington's program.

It is important to note that linking does not require the CCA to be designed identically to the external markets with which Washington might link. A 2013 discussion document published by the California Air Resources Board identified three prerequisites for linkage: that linked jurisdictions have equivalent stringency in GHG reductions, that both programs are enforceable, and that one program does not impose a liability on the other jurisdictions. Washington's cap-and-invest program meets these criteria. Additionally, E2SSB 6058 established additional criteria that must be met before Washington links with any external market: that the external jurisdiction has provisions to ensure the distribution of benefits to vulnerable populations and overburdened communities, that it not yield net

adverse impacts to either jurisdiction's highly impacted communities and that it not adversely impact Washington's ability to achieve its statutory greenhouse gas reduction limits.

As Washington negotiates with California and Quebec on possible linkage agreements, it is worth considering that California's emission reduction targets are not fully aligned with Washington's. For example, California's current target for 2030 is less stringent than Washington's (40 percent below 1990 levels versus 45 percent below 1990 levels) and its presumed end-state target date of 2045, with an emission target of 85 percent below 1990 levels, does not align with Washington's 95 percent emission reduction target of 2050. Moreover, legal authorization of California's cap-and-trade program will expire in 2030. Washington should not link with California until its program has been authorized to operate beyond 2030. Should California's presently existing emission reduction targets remain, its program will not be as stringent as Washington's after linkage occurs. Thus, Washington should not link with California unless it secures appropriate accommodations from California. Among those accommodations should be ones that reflect the unique attributes of Washington's economy.

There are provisions in the CCA that accommodate unique aspects of Washington's industries and our energy sector without compromising the integrity of the program. Avista believes it is important that this rulemaking preserve these important elements in the CCA, and that doing so should not jeopardize pursuit of a linkage agreement with California-Quebec.

Definition of "imported electricity"

Specifically, it is critical that the definition, calculation and reporting of imported electricity reflect actual imports and consumption of electric energy by Washington customers. If not, the reporting utility and the state will take responsibility for emissions not associated with in-Washington load. Covered emissions under the CCA include in-state generation and out-of-state generation imported and consumed in Washington. The definitions in the CCA and included in Chapter 173-441 WAC are being revised as it relates to "imported electricity." It employs a new term to identify – or more importantly exclude – transactions that involve "electricity wheeled through the state." This is defined in the rule under WAC 173-441-124. It is critical that the rule interpret and effectuate these terms to ensure the program is not regulating emissions associated with electricity that is neither generated nor consumed in Washington. Avista believes that, absent hourly netting of wholesale exports against imports at the state border (as opposed to present rules allowing netting only at individual hubs), the utility and by extension, the state of Washington, will be accounting for emissions neither generated in nor consumed in Washington. It is therefore essential that hourly exported power offset hourly imported power, with those exports netting against imports defined as power wheeled through the state. Only in this way can Washington emissions be accounted for correctly.¹ The exports netted against imported power reflect wheeled-through power.

To help illustrate the point, the set of E-tags below illustrates a "classic" utility trade—selling all heavy-load hours on a given day (6:00a – 10:00p) and then covering the fewer super-peak hours

¹ Net imports would be set to zero in any hour where exports exceed imports.

(8a – 12p) of the same day by purchasing the power back, either from the same party or another with surplus capacity in the super peak period. Given the important physical requirements of meeting load, this practice is commonplace. It resulted in hundreds of thousands of MWhs of hourly trading for Avista in 2023, which saves Washington citizens money and does not increase emissions. The trade works both ways, depending on system conditions, and could just as easily have been an initial buy from BPA over the heavy-load hours and then a resale during the peaks, or an initial sale to Portland General Electric and a buy-back from BPA (both outside-WA entities). The power in both cases is unspecified. During the super-peak periods shown here, no power flows. The original sale quantity of 25 MW is offset by an equal buy quantity of 25 MW in the four super-peak hours.

Sale to BPA for All Heavy Load Hours (6:00a – 10:00p) on July 18, 2024

AVA_BPAP012613271_BPAT - Work - Microsoft Edge

https://www.tag.oati.com/SmartTag/TagViewHTML?TagTemplate=0&TagIndex=42587115&ReqIndex=0&DBID=1&overrideTin

AVA_BPAP012613271_BPAT Start/Stop Time: Jul 18, 2024 06:00 - Jul 18, 2024 22:00 PDT (All t

Tag Information

GCA	CPSE	Tag Code	LCA	Transaction Type	Time Zone	Test Tag	Tag MWh at Gen (Original/Final)	Tag MWh at Load (Original/Final)
AVA	BPAP01	2613271	BPAT	Normal	PDT	No	400 / 400	400 / 400

PSE Comment:
Multiple Base Profile: Yes

Market Path

PSE	Product	Contract	Misc Info
AVWP00	G-F		Yes
BPAP01	L		No

Physical Path

BA	TSP	MO	PSE	POR	POD	Sched Entities	Contract	Misc Info	Loss
AVA			AVWP00	Source:	MIDC			No	
	BPAT		BPAP01	MIDCRemote	BPAPUNSCHD	BPAT		No	
BPAT			BPAP01	Sink:	BPALOAD			No	

Current Energy and Transmission Profiles - MW (out of)

MW Reservation Trans Total

Date	Start	Stop	Gen	BPAT		Ramp Duration		
			MW	Trans	15395	MW	Start	Stop
07/18	06:00	22:00	25	25	25	25		
		MWh:	400	400	400	400		

Transmission Allocation

TSP	Owner	Product	OASIS	NITS Resource	Misc Info
BPAT	BPAP01	6-NN	15395		No

Loss Accounting

Purchase from BPA Super-Peak Hours (8:00a–12:00p) July 18, 2024

BPAT_AVWP00278893_AVA - Work - Microsoft Edge
 https://www.tag.oati.com/SmartTag/TagViewHTML?TagTemplate=0&TagIndex=42591008&ReqIndex=0&DBID=2&overrideTimeZone=PD&overrideTimeZoneOffSet=-

BPAT_AVWP00278893_AVA Start/Stop Time: Jul 18, 2024 08:00 - Jul 18, 2024 12:00 PDT (All times are in PDT) Current Tag (IMPLEMENTED)

Tag Information

GCA	CPSE	Tag Code	LCA	Transaction Type	Time Zone	Test Tag	Tag MWh at Gen (Original/Final)	Tag MWh at Load (Original/Final)
BPAT	AVWP00	0278893	AVA	Normal	PDT	No	275 / 275	275 / 275

PSE Comment:
Multiple Base Profile: No

Market Path

PSE	Product	Contract	Misc Info
BPAP01	G-F		Yes
AVWP00	L		No

Physical Path

BA	TSP	MO	PSE	POR	POD	Sched Entities	Contract	Misc Info	Loss
BPAT			BPAP01	Source:	BPAPower			No	
	BPAT		AVWP00	BPA Power	AVA.BPAT	BPAT		No	
	AVAT		AVWP00	AVA.BPAT	AVA.SYS	AVA		No	
AVA			AVWP00	Sink:	AVA.SYS			No	

Current Energy and Transmission Profiles - MW (out of)

MW Reservation Trans Total

Date	Start	Stop	Gen	BPAT			AVAT			Ramp Duration	
			MW	Trans	103459943	MW	Trans	103459948	MW	Start	Stop
07/18	08:00	09:00	50	50	50	50	50	50	50		
07/18	09:00	12:00	75	75	75	75	75	75	75		
		MWh:	275	275	275	275	275	275	275		

To illustrate the frequency of this trading, Avista reviewed its 2023 compliance filing E-tag data and identified the frequency of trading multiple transactions in the import and export directions in the same hour. Illustration 1 explains that in more than half of the hours in 2023 Avista transacted at least 10 times to meet its loads. Some hours had more than 30 transactions. Illustration 2 shows the number of net import transactions—i.e., import less export—which vary between 14 (indicating there were 14 more export transactions than import transactions in an hour) and 25 (indicating 25 more import than export transactions occurred in an hour). In total, Avista imported more than 2.7 million MWh in 2023 for retail load service and wholesale sales, offset by nearly 600,000 MWh of exports. These illustrations reflect business complexity and the importance of categorizing exports reducing imports as wheeled-through transactions used to address ever-changing balances of loads and resources. Clearly a very large volume of trades occurs that, if not correctly accounted for through netting exports from imports, will incorrectly overstate Avista (and other utility) emissions reporting and make meeting Washington’s carbon reduction goals more difficult.

Illustration 1
Unspecified Power Transaction Volumes
(i.e., number of trades in each hour)

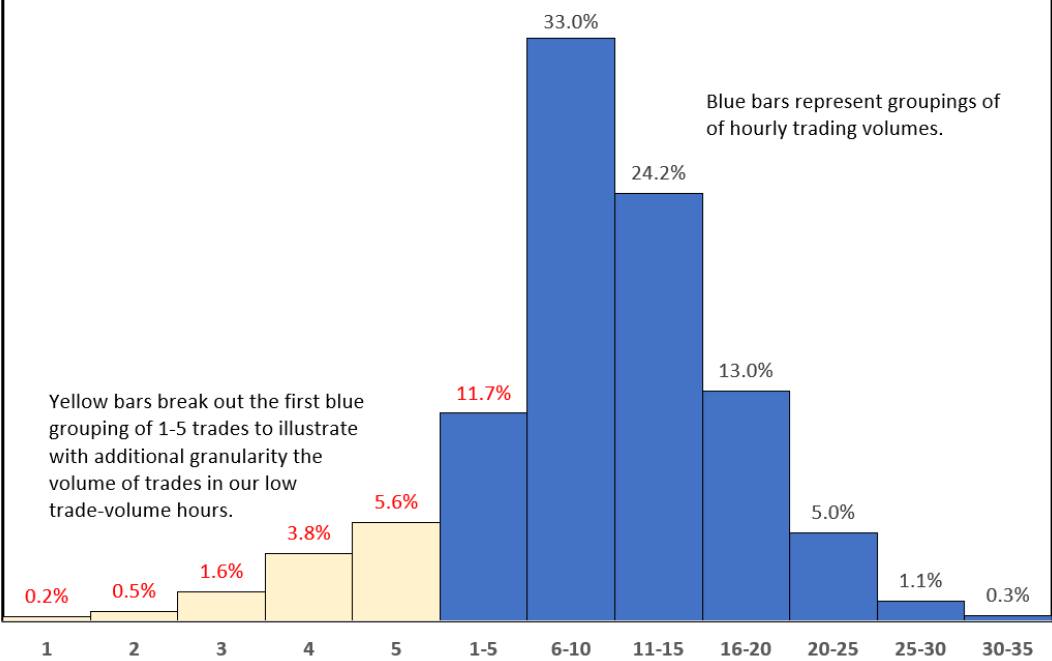
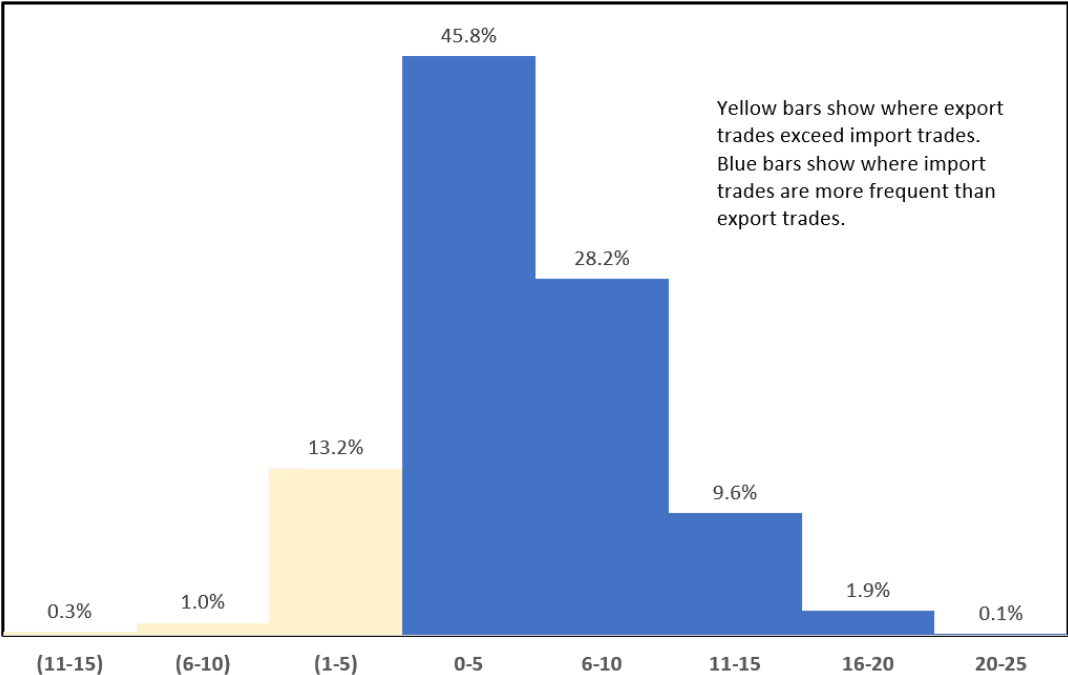


Illustration 2
Unspecified Power Net Import Transaction Volumes
(i.e., number of trades in each hour)



Finally, it is incorrect to net hourly transactions at trading hubs as is presently required in rule. Avista frequently imports at one hub (e.g., AVA.SYS) and exports at a different hub (MidC) to maximize efficient use of its transmission system (e.g., a shared point of interconnection with a different utility) or enable a resource facing a physical delivery constraint to a specific hub to be delivered to load. Netting should be at the Washington border, as separating imports at different hubs will overstate emissions created in the service of Washington load.

In summary, it is imperative that a proper interpretation of “imported electricity” and “electricity wheeled through the state” consider the hourly netting of exported power against imported power to prevent deeming or otherwise accounting for transactions as “imports” when, in fact, they are not. The rules should not exaggerate “imported electricity.”

Netting in-WA specified sales from WA generation in MJRP reporting tool

While netting In-Washington specified sales in multi-jurisdictional retail provider (MJRP) reporting is not directly associated with linkage, it does affect the intent of carbon emission efforts. In the MJRP tool, outside-Washington specified sales are removed explicitly in the equations on the “Start Here” tab that calculates total emission obligations. In other words, where a utility sold non-emitting power to a third party this energy is removed from benefitting the “outside-Washington” emission factor. However, for in-Washington specified sales it appears there is no commensurate reduction made. Without reducing in-Washington specified sales, the generation reduces the amount of outside-Washington generation used to serve in-Washington load, and its associated per-MWh emissions level, on a one-for-one basis even as other Washington energy suppliers are allowed to “claim” the emissions-free (to them) supply in their compliance tabulations. Assuming Avista has correctly identified an error, the MJRP tool could either (1) instruct users to reduce Washington generation resources by specified sales or 2) enhance the “Start Here” tab calculating emissions obligation to increase load served by outside-Washington resources by an amount equal to in-Washington specified sales.

Adjustment of no-cost allowance allocation

The CCA includes provisions to mitigate the cost burden effect of the law on electric utilities through the distribution of no-cost allowances. The procedures for distribution of no-cost allowances to electric utilities and the formula for calculating the cost-burden effect are contained in WAC 173-446-230. This section also contains provisions for the adjustments of no-cost allowance allocation to account for the “differential between the applicable reported greenhouse gas emissions for the prior years for which reported data are available and verified in accordance with chapter 173-441 and the number of allowances that were allocated for the prior year through this process.” Additionally, subsection (2)(j) sets forth a process for Ecology to make such an adjustment. However, this process lacks clarity. The rules set forth one process for triggering an adjustment if a revised forecast of supply and demand is approved by July 30. But the rule does not clearly state how and when Ecology would adjust its allocation of no-cost allowances based on the utilities actual emissions as reported

under chapter 173-441 WAC. We believe it is important to clarify this adjustment process to carry out the law as intended and for electric utilities to prudently achieve their compliance obligations.

Compliance periods

Another element of Washington's carbon trading program that is unique to our state is the four-year compliance periods. We recognize that E2SSB 6058 directs Ecology to align Washington's compliance periods with other jurisdictions, which currently operate under three-year compliance periods. Ecology notes in the draft rule matrix that California and Quebec are considering changes to compliance period lengths. To the extent this is a matter up for negotiation in linkage discussions among the three jurisdictions, we would strongly urge Ecology to advocate for four-year compliance periods across all programs. In the development of the CCA, lawmakers settled on four-year compliance periods in recognition of Washington's electric energy profile. Our heavy reliance on hydroelectric power can result in wide year-to-year variations in emissions associated with electric energy generation and consumption due to annual hydro variability. Washington is more exposed to this risk than both California and Quebec. The longer four-year compliance period was adopted to help smooth out the effect of possible spikes and dips in annual emissions, largely associated with hydro variability. Moving to three-year compliance periods would offer less predictability in compliance requirements and create possible instability in allowance prices.

Preserving price containment mechanism for Washington entities

Avista supports clarification that Washington's allowance price containment reserve would be a tool to contain compliance costs specifically for Washington covered and opt-in entities, and that only Washington covered entities and Washington opt-in entities may participate in allowance price containment reserve auctions. We support the similar provisions limiting participation in auctions of allowances from the emissions containment reserve account and access to Washington ceiling price units. (Sections 360, 370, 380)

Seventy-five-day notice of intent to consign allowances

Ecology is proposing a requirement that electric and natural gas utilities notify Ecology of their intent to consign allowances into an auction 75 days in advance. This would require notification of the intent to consign allowances just days after the results are announced from the previous quarterly auction. This leaves the utilities little time to assess market conditions and formulate an appropriate strategy to maximize allowance value to the benefit of ratepayers and prudently manage compliance costs. Avista has several questions regarding this proposed change: 1) Would the 75-day notification requirement align with California-Quebec requirements? 2) Would a utility be allowed to subsequently alter its plans to consign allowances inside the 75-day window? 3) When is the collateral for any purchases required relative to the 75-day notice? On this final point, Avista believes the collateral requirement should be waived or Ecology should allow netting of collateral exposure for entities consigning allowances.

Ecology's discretion to reduce penalties

The proposed rule removes the discretion to reduce penalties in the first compliance period in Washington links with another jurisdiction. This should be effective on the date of linkage, and the infractions that occur prior to that date should be eligible for reduced penalties. To the extent that end of the compliance period maybe less than four years and shortening the compliance period would create risk of non-compliance, then Ecology should take that into consideration and still have the discretion to reduce penalties in the first compliance period.

Thank you for the opportunity to comment. We look forward to further discussions and participation in this rulemaking.

Sincerely,

/s/ Kevin Holland

Kevin Holland
Director of Energy Supply
Avista Corp.