

September 27, 2024

## **VIA ELECTRONIC SUBMISSION**

Washington Department of Ecology  
Department of Ecology Air Quality Program  
P.O. Box 47600  
Olympia, WA 98504-7600

### **RE: Linkage Rulemaking**

The California Independent System Operator Corporation (ISO) appreciates this opportunity to comment on Washington Department of Ecology's Linkage Rulemaking to update WAC 173-441 and WAC 173-446. In support of linkage, our comments explain that the ISO's market model can accommodate linkage and provide an overview of an ISO policy process required to update the ISO's tariff to reflect that linkage. The ISO stands ready to work collaboratively with the Department of Ecology and its stakeholders to provide additional information necessary to support this rulemaking.

### **About the ISO and the WEIM/EDAM**

The ISO is a 501(c)(3) not for profit public benefit corporation and serves, among other functions, as the market operator for the Western Energy Imbalance Market (WEIM). The WEIM allows participating balancing authorities<sup>1</sup> to buy and sell electricity close to the time in which it is used (real-time) and balance fluctuations in supply and demand over a larger footprint. Since its inception in 2014, the WEIM has generated, to date, an estimated \$5.85 billion in gross benefits for participating utilities; and has allowed them to share power in real-time during stressed grid conditions. In addition to economic and reliability benefits, the WEIM has enabled a reduction in greenhouse gas (GHG) emissions through the avoidance of renewable supply curtailments and supported greater renewable integration. Additionally, the Federal Energy Regulatory Commission (FERC) has approved the ISO's day-ahead market platform (the Extended Day Ahead Market, or EDAM) to participants in the WEIM (real-time

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<sup>1</sup> In Washington, the balancing authorities that participate in the WEIM are Avangrid, Avista, Bonneville Power Administration, PacifiCorp, Portland General Electric, Puget Sound Energy, Seattle City Light, and Tacoma Power.

market) who elect to extend participation to the day ahead market. To date, PacifiCorp and Portland General Electric have executed implementation agreements to participate in EDAM in 2026, and a number of other utilities from around the West have indicated their public intent to join EDAM. The EDAM will launch in 2026.

### **ISO Market Model and Washington:**

The ISO markets rely on bids from electricity generators, or resources, to meet the demand of the system for energy. These resources bid a cost and quantity of energy and the relevant market, such as the WEIM, automatically finds the lowest-cost resources to meet the power needs. For resources within either Washington or California, the costs of compliance with the cap-and-invest or cap-and-trade programs, whichever is relevant, are included in the energy bid of the resource because it reflects the costs faced by the resource when dispatched by the market.

When EDAM launches in 2026, both the WEIM and EDAM will have a resource-specific GHG approach to reflect both Washington's cap-and-invest program and California's cap-and-trade program. This design uses resource-specific GHG bid adders. These bid adders allow resources which are outside but that choose to serve California or Washington state to recover the cost of their compliance from the market by adding a separate "adder" to their energy bid. These GHG costs of compliance are then paid for by the GHG regulation area, Washington or California, which received transfers. The bid adders also reflect the willingness of resources to be dispatched and serve demand in a GHG regulation area, or state, such as Washington, and take on the associated state compliance and reporting obligations. This design reflects state directives for a first jurisdictional deliverer approach, which assigns the compliance cost to the resource delivering electricity into a state with a GHG compliance framework.

When EDAM goes live, the GHG design in the WEIM and EDAM will accommodate the currently unlinked regulatory paradigms in Washington and California. This means resources outside of either state can offer a bid adder demonstrating a willingness to serve either Washington or California separately, offer bid adders to serve both states, or can submit no bid adders and not be dispatched to either state. Depending on how the market dispatches each of those resources, the resource will only recover costs associated with the GHG compliance program in the state to which it is dispatched.

For resources in either Washington or California, the costs of its own state's GHG compliance program will be reflected in its energy bid.<sup>2</sup> These resources may also have a bid adder to serve demand in the other state with a GHG pricing policy in place. For example, a resource in

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<sup>2</sup> Some stakeholders in the ISO's GHG Coordination working group have suggested the ISO explore the idea of separating the GHG bid adder from the energy bid within a GHG regulation area such as Washington. The ISO continues to explore this proposal.

Washington could submit a GHG bid adder to serve demand in California. Likewise, a resource in California could submit a GHG bid adder to serve demand in Washington.

### **Market Impacts without and with Linkage**

Without linkage, a resource in a state with GHG regulation potentially faces the cost of GHG compliance twice, once in Washington and again in California. This increases the cost of the resource in the market, should it choose to serve the other state. This is because it will have a cost of compliance in its own state that is embedded in its energy bid and will have a separate bid adder for the other GHG-regulating state. As a result, a resource outside a GHG regulation area, or state, is more likely to be dispatched because it only faces the cost of GHG compliance once – through its bid adder to serve either state – and therefore looks comparatively cheaper to the market that dispatches at least-cost.

Linkage would eliminate the effect of emitting resources facing costs of GHG twice. If California and Washington were to link and therefore recognize each other's or share compliance instruments, the cost of compliance in either state would be identical. This single cost of compliance would put in-state resources in California or Washington on a similar GHG cost level as resources outside of either state. As discussed in the section below, the ISO's market model can accommodate linkage with a minor change to the current design.

### **An ISO Policy Process to Accommodate Linkage**

The ISO's market can accommodate linkage and the ISO is prepared to share data with both states and compliance entities participating in the WEIM or EDAM to support compliance with linkage. However, the ISO will need to conduct a policy process to update its tariff, or the FERC-governed rules by which it runs its market. This small tariff change would avoid resources in California and Washington paying two compliance costs if they serve the other state. At this time, the ISO anticipates updating its rules to reflect a GHG cost cap of \$0 between linked GHG regions, to reflect that there is not an additional GHG cost faced between GHG regions.<sup>3</sup>

The ISO policy process is intended to vet proposed changes with stakeholders, solicit feedback on other potentially needed changes, and socialize how bidding practices will operate under linkage. The timing of an ISO policy change will depend on when linkage is finalized. The ISO recognizes that in addition to the Department of Ecology's processes, there would be separate processes and approvals required in California. Following the stakeholder process, the ISO takes any tariff proposal to its Board of Governors and Western Energy Markets Governing Body and, if approved, files changes at FERC in order to update the ISO

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<sup>3</sup>Today the ISO uses cost caps to limit GHG bid costs and to derive resource cost references used in processes to mitigate potential local market power. These costs caps are based on GHG allowance trading prices.

tariff. The ISO stands ready to work collaboratively with the Department of Ecology and its stakeholders and coordinate on linkage implementation.

Sincerely,

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