Comments of the Western Power Trading Forum
to the Washington Department of Ecology
on Proposed Modifications to the Climate Commitment Act Program

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The Western Power Trading Forum[1] (WPTF) appreciates the opportunity to provide input to the to the Washington Department of Ecology on Proposed Modifications to the Climate Commitment Act Program in response to the linkage bill (SB6058). Our comments below address

- Applicability provisions for specified sources of electricity,
- Covered emissions for instate resources that offer into centralized electricity markets,
- Treatment of emissions associated with electricity generated in Washington and exported to California, and vice versa,
- Clarity on Allowance Price Containment Reserve (APCR) auctions.

Our textual edits to the draft rules are shown in red on top of a clean version of Ecology's proposed changes.

WAC 173-446-030 Applicability.
(c) A first jurisdictional deliverer that imports electricity into Washington, and

Changes to the applicability requirements for electricity importers in SB6058 do not align with that of California's program. In the California program, the emission threshold for specified sources imports of is set relative to the annual emissions of the resource – not the cumulative emissions from all specified source imports by the importer. This threshold was intentionally adopted by California to provide parity with how resources inside the state are treated.

WPTF is concerned that the exemption for emissions associated with purchases of federal power marketing administration electricity in subparagraph (iii)will result in undercounting of emissions associated with imports by the Bonneville Power Administration (BPA) and as a result, could hinder linkage. While the emissions of individual BPA customers are small, the cumulative total may be well above the 25,000 ton threshold. Given that these provisions are set out in statute, we recognize that Ecology cannot modify them through rule. Instead, we suggest that Ecology instead address these emissions through removal and retirement of allowances. This would ensure that emissions associated with all BPA imports are completely accounted and avoid creating compliance obligations for smaller BPA customers. We suggest language later in our comments to address allowance retirement for these emissions.

WAC 173-446-040 Covered emissions.
(e) Allotment of covered emissions for first jurisdictional deliverers of imported electricity.

Subparagraph (iv) of 173-446-040 does not accurately reflect how electricity would be allocated or deemed to Washington by a centralized market operator. Under both market designs, only electricity generated outside Washington could be allocated or deemed to Washington, and result in a compliance obligation as an import. The greenhouse gas tracking and accounting framework being developed for Markets+ (and expected to be developed for EDAM) could allocate electricity and any associated emissions from resources located in Washington to individual Washington utilities, but this allocation would not represent an import. Subparagraph (iv) is therefore both inappropriate and unnecessary and should be deleted.

[1] WPTF is a diverse organization comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West. WPTF has over 100 members participating in power markets within California and elsewhere across the United States.

~~(iv) For electricity generated by an electric generating facility in Washington where the owner or operator of that facility successfully offers electricity into a centralized electricity market and is assigned, designated, deemed, or attributed to be serving Washington electric load by the methodologies, processes, or decision algorithms put in place by the market operator of that centralized electricity market, the compliance obligation for the GHG emissions associated with that electricity is determined once, based on the emissions reported for that electricity under WAC 173-441-120.~~

Additionally, WPTF remains concerned that prior to linkage, the cap-and-trade programs of Washington and California would both impose a carbon obligation for emissions associated with electricity generated in one jurisdiction and imported to another. This double imposition of compliance costs creates a significant barrier to electricity transactions between the programs, which would be exacerbated in the centralized electricity markets. While we appreciate that Ecology has attempted to address this concern with the provision in WAC 173-446-400, paragraph (11) that defers the compliance obligation for emissions associated with electricity generated in Washington and exported into California, we do not consider this approach to be appropriate or sufficient. Both the California and Washington cap-and-trade programs are fundamentally source-based programs that also regulate electricity imports. Thus, for electricity that is transacted between the two jurisdictions, the compliance obligation should be borne by the generator in the host state. This aligns with how emissions associated with imports from the other jurisdiction will be treated if and when the two programs are linked. Instead, WPTF recommends that the importing jurisdiction should recognize and give credit for any compliance costs incurred by the generator for electricity that is exported from the other jurisdiction.

Further, the provision that defers the annual compliance obligation for emissions associated with electricity exported to California provides no guarantee that the compliance obligation for deferred emissions will not come due at the end of the compliance period. WPTF suggests that Ecology coordinate with the California Air Resources Board (CARB) to develop reciprocity provisions in both program rules that would provide credit to electricity importers for compliance costs incurred at the generator level in the originating jurisdiction. In light of CARB plans to reduce the overall allowance supply post 2024, and the fact that allowance prices under the Washington program are already high, we do not support allocating allowances to offset compliance costs for emissions associated with imports from the other jurisdiction. Instead, the importing jurisdiction should simply reduce the compliance obligation for emissions of the imported electricity by the amount that results from multiplying the emissions by compliance costs incurred in the originating jurisdiction program.

Specifically, we suggest that the importing jurisdiction reduce the compliance obligation for emissions associated with a specified source imports by the average ratio of the indexed allowance prices of the two jurisdictions in the previous year. For instance, for a specified import to Washington from an emitting resource located in California where the indexed California allowance price averaged .4 of the Washington allowance price in the previous year, the importer's compliance obligation for that import would be reduced by 40%. If the average allowance price in the host jurisdiction is higher than the allowance price in the importing jurisdiction, the covered emissions associated with the imported electricity should be reduced to zero. By adjusting emissions associated with specified electricity imports by the ratio of allowance prices, this approach would ensure that imported specified electricity and electricity generated in state are subject to comparable carbon costs.

Once this provision is adopted under both program rules, Ecology should eliminate the provision for the deferred compliance obligation. Ecology should convert the deferred compliance obligation to an actual compliance exemption for any exports that occurred during the period that the deferred compliance obligation was in effect. We provide language later in these comments.

(iv)The following emissions are not covered emissions for first jurisdictional deliverers of imported electricity:

(A) Emissions associated with specified imports from a generating facility located in a jurisdiction with an emission trading system that has not been linked to Washington that have been subject to a comparable compliance obligation;

(I) Ecology will determine the volume of emissions that have been subject to a comparable compliance obligation by multiplying reported emissions from the specified import by the lesser of 1 minus the annual averaged ratio of indexed allowance prices in the other jurisdiction to Washington indexed allowance prices for the importing year, or 0.

WAC 173-446-250 Removing and retiring allowances.

As explained above, WPTF recommends handling emissions associated with BPA sales to its smaller customers when BPA has not elected to comply with the program through retirement of allowances, rather than an exemption for those emissions. We suggest adding a new subparagraph (4) to this section to address this retirement.

(4) **Adjustments for emissions associated with electricity purchased from a federal power marketing administration.** If a federal power marketing administration has not elected to comply with the program, Ecology will remove and retire allowances for emissions associated with electricity purchased from a federal power marketing administration when those emissions are exempted

WAC 173-446-370 Allowance price containment reserve account.

WPTF strongly recommends that Ecology codify changes to the allowance price containment reserve (APCR) auctions. In 2023, Ecology inadvertently caused allowance prices in the secondary market to approach $70 per ton due to staff's arbitrary limitation on the volume of APCR allowances offered and its decision to auction Tier 2 allowances before Tier 1 was depleted. Our proposed changes to subparagraph (d) below would provide much needed clarity and align the APCR auctions with the way that APCR sales would be handled under the California and Quebec programs.

(d) The full volume of the remaining APCR supply will offered at each auction. ~~Tier 1 allowances shall be sold first, then~~ Tier 2 allowances will be sold only after all tier 1 allowances in the reserve have been sold. The auction of Tier 1 allowances shall continue until all Tier 1 allowances are sold or all bids are filled, whichever occurs first. If any Tier 1 allowances remain, ecology will award them to bidders for Tier 2 allowances at the Tier 1 price using a random number selection process that assigns random numbers to each lot bid and awards Tier 1 allowances starting with the lowest random number until all Tier 1 allowances are sold. The subsequent auction of Tier 2 allowances shall continue until all Tier 2 allowances are sold or all bids are filled, whichever occurs first.

WAC 173-446-400 Compliance instruments transactions—General information.
As explained above, WPTF considers that the adjustment to the compliance requirement for electricity exported from Washington to California should occur on the California side. We therefore recommend altering the deferred compliance provision for these exports so that it becomes an exemption for emissions associated with exports to California that occurred prior to the rule change. This will ensure that entities that exported electricity to California prior to change in the program rule are not harmed.

~~(~~(11) ~~Deferred~~ Exemption from compliance requirement for emissions associated with electricity exported to an external GHG emissions trading program prior to [January 1 of the year following effective date of rule change]~~.for first compliance period~~. For any portion of covered emissions from electricity generated in ~~a first jurisdictional deliverer in Washington state exported from Washington and imported into~~ an external GHG emissions trading program and imported into Washington, as demonstrated to ecology's satisfaction through means established under chapter 173-441 WAC, the requirements of subsection (2) and (3) of this section do not apply. ~~Only the requirements of subsection (3) of this section apply to that portion of covered emissions. This deferral is only in effect for the first compliance period, and for subsequent compliance periods subsections (2) and (3) both apply~~.