

September 27, 2024
ATTN: Gopika Patwa
Department of Ecology
Climate Pollution Reduction Program
P.O. Box 47600
Olympia, WA 98504-7600

RE: PacifiCorp Comments on Ecology’s July 1, 2024, Cap-and-Invest Linkage draft rules

I. Overview

On July 1, 2024, the Washington Department of Ecology (Ecology) requested comments on its draft rules for linkage under the Climate Commitment Act (CCA). PacifiCorp (or Company) appreciates the opportunity to comment on Ecology’s draft rules.

As background, PacifiCorp serves approximately 2 million electric customers in six western states (California, Idaho, Oregon, Utah, Washington, and Wyoming). The Company also operates two balancing authority areas (BAAs), PacifiCorp East (PACE) and PacifiCorp West (PACW), where the control area of PACW overlaps Washington State’s geographic border. PacifiCorp is also a multi-jurisdictional retail provider (MJRP) with unique reporting provisions in Washington; has emitting and non-emitting generation resources inside and outside of Washington; is a current participant in the Energy Imbalance Market (EIM); and has declared intent to join the Enhanced Day Ahead Market (EDAM). PacifiCorp has a direct affiliation with other covered entities under Cap-and-Invest through shared ownership at its parent company.

PacifiCorp supports Ecology’s pursuit of linkage with the California Cap-and-Trade program, and anticipates that linkage will promote market stability and liquidity, reduce compliance costs, and expand opportunities for the jurisdictions to achieve program goals. As such, PacifiCorp welcomes the opportunity to engage and appropriately prepare the program for linkage.

PacifiCorp’s comments focus on the following:

- PacifiCorp supports the definition of “Electricity wheeled through the state” and the removal of the imports netted by exports calculation in the definition of “Imported electricity.” PacifiCorp recommends minor clarifications in the rules, consistent with these definitions, and that Ecology clarify that an explicit calculation of electricity wheeled through the state will not be required in Ecology’s reporting template.
- Ecology should not assign the BAA a compliance obligation for generator imbalance energy it is required to provide.
- Ecology should seek to align with the California Air Resources Board (CARB) on exempting emissions that incurred a double obligation under unlinked Cap-and-Trade programs prior to their linkage.

- Ecology should ensure that any new or modified Corporate Association Group triggers are narrow, and do not assume or create nonexistent affiliations for the Company and its actual affiliates.
- PacifiCorp supports changes to holding and purchase limits.

II. PacifiCorp requests that Ecology clarify that a calculation of electricity wheeled through the state will not be included in its reporting templates.

PacifiCorp supports the definition of “Electricity wheeled through the state” and the removal of the imports netted by exports language in the definition of “Imported electricity.” In addition, PacifiCorp supports the clear exclusion of electricity wheeled through the state from the determination of imported electricity. These changes are consistent with Senate Bill 6058 (2024) and are an appropriate reflection of regulated electricity under the program.

To ensure clarity, PacifiCorp recommends that Ecology replace the word “wheels” in WAC 173-441-124(2)(jj) with “electricity wheeled through the state” and the word “wheeled” in WAC 173-441-124(4)(e) with “wheeled through the state.”

PacifiCorp requests that Ecology clarify that the changes to 173-441-124(2)(q)(iv) will be reflected in its guidance to reporters, that such that electricity wheeled through the state is excluded. This clarification will facilitate reporting consistent with the new regulations.

III. Ecology should ensure BAAs do not hold the compliance obligation for imbalance energy provided to generators.

PacifiCorp recognizes that Ecology is still in the process of determining the appropriate electricity importer for balancing energy. PacifiCorp recommends that Ecology develop rules that clearly state that an importing BAA providing imbalance energy to in-state generators, is exempt from associated compliance obligations. As an operator of two BAAs, PacifiCorp provides generator imbalance energy under Federal Energy Regulatory Commission’s Open Access Transmission Tariff (OATT) Schedule 9 Generator Imbalance Service. Under current regulations, the Company may be subject to an emissions obligation associated with this energy provided under this tariff, but would not receive commensurate no-cost allowances. Further, the tariff does include provisions for the BAA to recover allowance costs if they were required by state programs. Finally, because balancing energy is associated with system energy imported by the BAA, it is infeasible for the BAA to distinguish which individual generator or specific energy was provided for balancing services – as there are no e-tags differentially associated with balancing energy provided by the system.

IV. Ecology should align with CARB and seek to exempt emissions that incur double obligations in unlinked Cap-and-Trade jurisdictions.

PacifiCorp continues to request certainty from both Ecology and CARB that resources will not incur duplicative compliance obligations in both Washington and California. It is broadly

understood that in these cases, despite the programs being unlinked, covered entities should only be required one allowance to be retired for a given metric ton (MT) of emissions covered between the two programs. For example, PacifiCorp owns a natural gas generation facility located in Washington (Chehalis), the full output of which incurs a compliance obligation as a generation facility in Washington. Chehalis is also an EIM-participating resource that is deemed to California, in which cases it as a specified import and incurs an obligation under CARB's regulations. Separate from that, a load-share portion of Chehalis is cost-allocated to serve the Company's California retail customers, which is reflected in the company's multijurisdictional system emission factor calculated under CARB's Mandatory Reporting Rule. Thus, the company incurs a double obligation from two distinct import sources of energy to California from the Chehalis facility.

In an October 5, 2023 workshop held in advance of its upcoming rulemaking, CARB asked for feedback on an appropriate mechanism for the program to employ that would address dual carbon obligations when the same electricity incurs an obligation in two states. In comments to both CARB and Ecology, PacifiCorp asked each agency to develop a process that would exempt specified imports (including resources deemed delivered from organized markets, and cost-allocated to retail customers) from emitting resources located in states that regulate facilities' total generation output under Cap-and-Trade programs.¹ Other stakeholders, including the joint California utilities and Western Power Trading Forum, similarly requested that an exemption approach be developed between the two programs.²

Regardless of the exemption approach taken by the two jurisdictions, Ecology should clarify that the exemption would apply to the first compliance period, as well as future periods, prior to program linkage. Ecology should also identify how this exclusion would be identified and applied retroactively.

V. If Ecology plans to update Corporate Association Group (CAG) triggers, then it should ensure there are real and clear associations between companies

PacifiCorp has a direct affiliation with other Cap-and-Trade covered entities through shared ownership at its parent company. While some stakeholders assume all affiliated entities act in a coordinated fashion with respect to carbon markets, this is not the case for PacifiCorp, which exchanges minimal market position information with its direct affiliates to ensure the companies do not exceed their shared holding and purchase limits. This is largely a clerical function and does not involve the exchange or discussion of material Cap-and-Trade market strategy information. As a result, PacifiCorp is concerned that overly broad CAG triggers assume information sharing schemes that do not exist, unnecessarily expand the list of associated entities, and restrict PacifiCorp's and its affiliates' abilities to trade and hold allowances.

For example, PacifiCorp incurs a relatively small obligation relative to the total Washington and California Cap-and-Trade programs— and, like many other covered entities, does not have dedicated in-house legal, policy, and trading expertise to fully optimize its participation in the

¹ October 26, 2023, [PacifiCorp comments](#) to California Air Resources Board, p. 3 (Oct. 26, 2023); [PacifiCorp Comments](#) to Washington Department of Ecology, p. 4 (Oct. 30, 2023).

² Western Power Trading Forum [comments](#) to California Air Resources Board, p.6 (Oct. 26, 2023); [Joint Utilities Group comments](#) to California Air Resources Board, p. 7 (Oct. 26, 2023).

programs. Thus, PacifiCorp, and other small program participants, often rely on consultants and advisors who can provide better guidance or strategies when they know the company's holding limit, purchase limit, or general market strategy. These consultants and advisors may have other program clients, but treating these relationships as "affiliations" is inappropriate, and jeopardizes holding and purchase limits of companies that truly are direct affiliates.

VI. PacifiCorp supports the proposed changes to holding and purchase limits.

PacifiCorp supports Ecology's proposed changes to the holding and purchase limits. Specifically, PacifiCorp supports setting the holding limit in a manner that considers the allowance budgets for Washington and all other linked jurisdictions (WAC 173-446-150(2)). Without this change, registered entities may be unnecessarily constrained in their ability to procure allowances and forced to sell off allowances without any benefit to market liquidity or security. In addition, PacifiCorp supports the increase in purchase limits from 10 to 25 percent of available allowances (WAC 173-446-330(1)). This will allow registered entities more flexibility in auction participation.

Finally, if Washington links with other jurisdictions, then allowances from all jurisdictions are eligible for retirement for compliance in Washington, thereby greatly reducing the likelihood that any one registered entity could manipulate the market. Setting the holding limit based on allowances that only Washington sells, unnecessarily limits companies' ability to procure allowances and could force participants to unnecessarily sell off allowances at no benefit to market liquidity or security.

VII. Conclusion

PacifiCorp supports appropriately linking Washington's carbon market with the California-Quebec carbon market and appreciates the opportunity to comment on Ecology's proposed rules. PacifiCorp looks forward to continued engagement with Ecology in the development and implementation the proposed rules.

Sincerely,

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