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Joint Comments of Avista Corporation, Cascade Natural Gas Corporation, NW Natural, and Puget Sound Energy Regarding Cap-and-Invest Linkage Rulemaking

September 27, 2024

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

Re: Implementation of Senate Bill 6058 facilitating carbon market linkage

Avista Corporation, Cascade Natural Gas Corporation, NW Natural, and Puget Sound Energy, Inc. (collectively, the “Utilities”) appreciate the opportunity to submit comments on the draft rules by the Washington Department of Ecology (“Ecology”) to facilitate linkage of Washington’s cap-and-invest program with other jurisdictions.

The Utilities strongly support linking Washington’s cap-and-invest program with the California-Québec market. Linkage will create greater market efficiencies, increase Washington’s ability to achieve its greenhouse gas reduction goals equitably, and reduce the risk of emissions being outsourced to other states through leakage. As Ecology found in its preliminary linkage analysis, “[B]y joining the larger and more stable California-Québec market, Washington’s cap-and-invest program would likely become more balanced and durable, setting the stage for long-term success, revenue generation and ongoing emissions reductions.”¹

The Utilities appreciate the action Ecology is taking pursuant to Senate Bill 6058 to make upfront changes to Washington’s Climate Commitment Act Program and Greenhouse Gas Reporting regulations. The Utilities support the draft rulemaking language Ecology has proposed in light of Senate Bill 6058, especially the following—

- **Compliance period alignment.** The Utilities agree that future compliance periods should align between linked jurisdictions and support maintaining the four-year compliance period for the first compliance period, as required by Senate Bill 6058. Changing the length of the first compliance period would upend near-term compliance planning to the detriment of the Utilities and their customers. If Washington enters into a linkage agreement and Ecology transitions from a four-year compliance period to California’s and Québec’s three-

¹ Washington Department of Ecology, *Cap-and-Invest Linkage Criteria: Preliminary Analysis Report*, 41 (Oct. 2023), <https://apps.ecology.wa.gov/publications/documents/2314005.pdf>.

year compliance periods, the Utilities would welcome the opportunity to work with Ecology to develop allocation and true-up process guidance to ensure a smooth transition.

- **Amending the definition of biofuels.** The Utilities support implementing Senate Bill’s 6058 new definition of “biomass-derived fuels,” “biomass fuels,” and “biofuels” to refer to “fuels that have at least 30% lower greenhouse gas emissions based on a full life-cycle analysis when compared to petroleum fuels for which biofuels are capable as serving as a substitute, or fuels that meet a standard adopted by Ecology that aligns with the definitions of a linked jurisdiction.”² However, the Utilities reiterate the definition’s 30% lower greenhouse gas emissions requirement is not applicable to renewable natural gas that replaces fossil natural gas in the Utilities’ pipeline systems, because there is no relevant comparison to petroleum fuels in this scenario. The Utilities urge Ecology revise the definition or issue guidance to avoid potential confusion.
- **Removing the 10% vintage year allowance holding limit upon linkage.** The Utilities support removing the provision preventing general market participants from owning more than 10% of the total allowances issued in any calendar year if Washington enters into a linkage agreement. This change aligns with the California and Québec programs. Notably, the overall holding limit for general market participants would still be in effect, thereby providing a safeguard against potential market domination.
- **Increasing the allowance purchase limit.** The Utilities agree that the purchase limit a covered entity or opt-in entity may buy at a single auction must be increased to align the Washington, California, and Québec programs for the linked markets to function appropriately and in a way that does not disadvantage Washington entities.
- **Maintaining existing EPA greenhouse gas reporting requirements for consistency.** The Utilities support retaining EPA’s current greenhouse gas reporting requirements under Washington’s Greenhouse Gas Reporting regulations. This allows consistent reporting across regimes and reduces administrative compliance costs.

Finally, the Utilities encourage Ecology to stay apprised of cap-and-invest rulemakings in other jurisdictions and maintain consistent communication with officials in those jurisdictions to help ensure that those rulemakings may not pose unnecessary barriers to linkage in the future.

The Utilities appreciate the opportunity to engage with Ecology on linkage between Washington’s cap-and-invest program and other jurisdictions and hope Ecology will continue to provide engagement opportunities as the rulemaking process evolves.

² Washington Senate Bill 6058, Sec. 1(12).

If you would like to further discuss this letter or have any questions, please reach out to Lorna Luebbe (lorna.luebbe@pse.com), Bruce Howard (bruce.howard@avistacorp.com), Abbie Krebsbach (abbie.krebsbach@mdu.com), and Mary Moerlins (mary.moerlins@nwnatural.com).

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