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July 30, 2025

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RE: Rulemaking – Chapter 173-446 and -441 WAC, Centralized Electricity Markets and Electricity Imports – June 26, 2025 Workshop

On June 26, 2025, the Washington Department of Ecology (Ecology) held a workshop on the treatment of electricity imports and centralized electricity markets, the rules for which will be memorialized in Chapter 173-446 and -441 WAC, Climate Commitment Act Program (CCA) and GHG Reporting Rules. In that workshop, Ecology requested feedback on the following issues: 1) determining the electricity importer for imports used to serve non-retail load of multijurisdictional retail providers (MPRP's), 2) determining the "backstop" electricity importer for CEM electricity assigned, designated, deemed, or attributed to a federal power marketing administration that has not elected to comply with the program, 3) the treatment of balancing energy and energy wheeled-through Washington, 4) the timing and alignment of approaches to accounting for emissions in the California Independent System Operator's (CAISO's) Western Energy Imbalance Market (WEIM) and the Extended Day-Ahead Market (EDAM), 5) the determination of surplus specified source electricity in a CEM and the CEM frameworks for mitigating leakage, and 6) defining Washington GHG Zone loads for MJRPs.

Puget Sound Energy (PSE) appreciates Ecology's substantial and thoughtful engagement and efforts to understand CEM frameworks. PSE offers the following comments on the concepts questions posed by Ecology in its June 26, 2025 workshop.

Non-retail load within an MJRP balancing authority area (BAA)

In the concept introduced at its June 26 workshop, Ecology is proposing to include load that is in an MJRP BAA that is not served by that MJRP through a retail tariff. The Bonneville Power Administration (BPA) expressed concerns with this approach in Ecology's workshop as it could implicate load for which emissions are already being accounted for by another participant in the program. PSE agrees this language could inadvertently apply to loads for which emissions are already assessed. PSE defers to BPA and MJRPs on the best way to resolve this, but one option may be to clarify in language that it only applies to electricity that has not already been accounted for under the program. This solution would also address Ecology's questions posed in the workshop because the onus would be on the MJRP and the entity serving that load to demonstrate the pathway under which the load is served and the solution would not be limited to a discrete set of ways in which that load may be served.

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WAC 173-446-(124)(2)(f)(i): *For electricity that is scheduled with an e-tag to a final point of delivery into a balancing authority area located entirely within Washington state or electricity – for which emissions are not reported by another entity in the Program - serving Washington load in a balancing authority area not entirely located within Washington state other than the retail load of a multi-jurisdictional electric company, the electricity importer is identified on the e-tag as the purchasing-selling entity on the last segment of the tag's physical path with the point of receipt located outside Washington state and the point of delivery located inside Washington state;*

Backstop for FPMA CEM-deemed market importer

PSE supports Ecology's proposal for establishing a backstop for electricity that is assigned to Washington in a CEM when a federal power marketing administration is the deemed market importer with one minor but important suggestion. In this comment, PSE uses the phrase "assigned" to mean assigned, designated, deemed or attributed, as defined in Ecology's GHG Reporting rules. PSE suggests Ecology modify the language in it proposed subsection (xx)(b) to clarify electricity will be assigned, designated, deemed, etcetera, in an after-market process after the in-market optimization has run and has *attributed* a bulk amount of electricity to the Washington GHG Zone.

(xx) If the importer identified under (f)(iii) of this subsection is a federal power marketing administration over which Washington does not have jurisdiction, and the federal power marketing administration has not voluntarily elected to comply with this chapter:

(a) Where the imported electricity is contracted to a Washington retail provider, the electricity importer is that retail provider;

(b) Where the imported electricity is not contracted to a Washington retail provider, the electricity importer is the retail provider that receives a pro rata ~~attribution~~ assignment of electricity; and

(c) The imported electricity under this subsection (f)(xx) is considered to be a specified source of electricity provided by the federal power marketing administration.

In Markets+, electricity contracted to a Washington retail provider, or for which a retail provider receives a pro rata distribution can be demonstrated through the Markets+ Tracking and Reporting framework. This reporting will be generated on an entity-specific basis, identifying that entity's assignment of electricity. This reporting can also be used to support third-party verification required under Ecology's CCA program rules. Lastly, Ecology asks if electricity identified in (b) – the retail provider that receives a pro-rata assignment of electricity" – is only retail providers with contracts with the FPMA or all retail providers within the Washington GHG Zone. The retail provider described in (b) is the latter, all retail providers within the Washington GHG Zone.

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Balancing energy

PSE supports Ecology's proposal not to pursue amendments to separately account for balancing energy provided to in-state generators and has no further comment at this time.
The Joint Parties support including POR/PODs within the same BAA in the definition of a Common Point.

Electricity wheeled through the state

PSE supports Ecology's proposals to 1) include points of receipt and delivery (POR/PODs) in the same BAA in its definition of "Common Point", and 2) clarify that electricity "wheeled through the state on separate e-tags within the same hour" is only applicable to unspecified imports and unspecified exports.

Aligning WEIM and EDAM accounting approaches

PSE understands the challenges with aligning approaches for compliance and reporting in the WEIM and EDAM. Ecology proposed four options in its June 26 workshop, ranging in implementation and regulatory complexity. At this time, PSE recommends Ecology pursue its proposed Option B or Option C, but acknowledges Option C is likely the most practical option.

Option B entails Ecology pursuing an emergency rulemaking to include an exemption for EDAM power for compliance year 2026. This approach requires that CAISO not implement GHG design for Washington for emissions year 2026 and therefore there is no attribution of power in WEIM or EDAM and no compliance obligations incurred for compliance year 2026.

In Option C, Ecology would not initiate an emergency rulemaking, but would provide guidance to CAISO to delay implementing its GHG design for Washington until 2027. Similar to Option B, there would be no attribution of power in WEIM or EDAM and no compliance obligations incurred for emissions year 2026.

While both options effectively have the same result, Option C is less complex from both a regulatory and implementation standpoint. Furthermore, the overlapping period in question is minimal, and having a one process with a straightforward start date in the second compliance period is preferable.

Emissions leakage and defining specified source market surplus

Washington utilities are preparing for participating in day-ahead markets in the next few years. PSE announced its plans to participate in Markets+ on May 12, 2025 and is a current participant in CAISO's WEIM. Both of the day-ahead market offerings in the west – SPP's Markets+ and CAISO's EDAM – have methodologies for limiting "leakage", termed *megawatt redesignation* or *secondary dispatch* in the respective markets. In its June 26 workshop, Ecology provided a discussion and its initial evaluation of these market mechanisms for limiting leakage. Ecology said its goal in rules was to *"limit emissions leakage by promoting consistent incentives for all generation serving Washington load*." Ecology also discussed

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potential options for regulatory mechanisms it could use to limit leakage, such as defining "surplus" generation outside the GHG zone that may be eligible to serve GHG zone load, or implementing an additional after-market emissions penalty intended to address potential emissions that occur outside the GHG Zone as a result of serving GHG Zone load.

PSE agrees with Ecology that any assessment of leakage in future day-ahead markets can only be based on evaluation of the design and actual leakage will be dependent on factors like market dynamics and the footprint of participants and resources within the market. Ecology also acknowledged that an appropriate balance must be struck that limits leakage while enabling efficient operations of regional markets. PSE offers answers to each of the questions Ecology posed on June 26 below.

Do you have support, concerns, or comment on Ecology's initial assessment of leakage risk and mitigation associated with each market's GHG design?

PSE appreciates Ecology laying out the design of each market's measures to limit megawatt redesignation or secondary dispatch and Ecology's willingness to share its thoughts on these frameworks. Both markets implement one or more constraints that must be met before generation is eligible to serve the GHG Zone. In PSE's view, leakage cannot be assessed by looking at each of the individual design elements, ex. Type 1a/1b, but rather looking at the leakage mitigation framework as a whole. Neither of these markets are in operation and we do not have any data, yet, to support Ecology's assessment of emissions leakage risk in each of these frameworks. At the highest level, PSE believes the application of the leakage mitigation framework in Markets+ may have a higher stringency than the measures in EDAM because they are applied at an individual resource and market participant level versus at a BAA level. Additionally, in the first pass, the Markets+ Enhanced Floating Surplus methodology limits the output from external resources that can be attributed to the GHG Zone to dispatch that is incremental to the surplus threshold.

What other market elements, outside of those discussed, increase the risk of emissions leakage?

General market dynamics may increase the risk of emissions leakage. As prices rise in the GHG Zone relative to the rest of the footprint, there is a greater incentive to send supply to Washington to receive the energy and GHG premium. The other resources and loads within the footprint can also increase or decrease the risk of leakage. For example, to date, leakage mitigation frameworks assume that a resource that is dispatched up (or not curtailed) as a result of a clean resource that is "deemed" to serve a GHG area is necessarily emitting or higher emitting than the deemed resource. This may not always be the case. As a greater penetration of clean, lower capacity factor resources participate in the market, certain intervals may result in additional clean generation "replacing" the clean generation that was deemed to serve the GHG area. Leakage mitigation measures may assign non-existent emissions, and additional costs, to that generation.

Should Ecology pursue additional mechanisms to minimize emissions leakage risk, including but not limited to defining "surplus" or implementing an out-of-market accounting approach?

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PSE suggests Ecology issue guidance related to surplus but keep its rules sufficiently broad to allow Ecology, market operators, and market participants to observe how these markets are functioning and their emissions outcomes. Ecology could consider defining surplus as external generation that is eligible to serve the GHG Zone in a manner that reasonably comports with native demand and out-of-market commitments for that generation.

Should Ecology adopt a definition of "surplus" that minimizes emissions leakage risk and is cohesive across distinct market designs, or should a definition of "surplus" be developed to best address leakage risk given a specific market design?

Please see PSE's response to the prior question. PSE also recommends that this definition be consistent across market designs.

What rule or guidance should Ecology adopt regarding "surplus" or "surplus thresholds"? When is adoption of rule or guidance necessary for market implementation and MP preparation?

PSE defers to the respective market operators' answers to these questions.

Should Ecology adopt an out-of-market accounting approach to account for CEM emissions leakage, such as CARB's existing Outstanding Emissions and EIM purchaser framework or the alternative Outstanding Emissions calculation discussed October 2023?

As discussed above, it is not appropriate at this time to impose an out-of-market penalty to market transactions in an attempt to "catch" any estimated theoretical emissions that have not been observed. In addition to potentially creating additional costs for no observable benefit, such an approach would divorce emissions reducing behavior from the in-market price signals. PSE recommends deferring such an approach at this time until we have a year or more of observable data to understand whether further measures are necessary.

Where identified capacity is available to serve WA at discretion of a MP (Type 2 resource operator, WEIM-only counterfactual) are there other market or economic elements not considered that limit emissions leakage risk?

Please see PSE's prior responses.

Should Ecology address leakage risk associated with a resource identified as having a contract for load within Washington, but where no other constraint is applied to the resource offer? In such a case are there other market or economic elements not considered that limit emissions leakage risk?

These GHG frameworks were designed amid extensive stakeholder discussion, taking into account, to the greatest extent possible the various controls needed to ensure integrity with Washington's CCA program. But we need to observe them in operation. Washington will be dependent on considerable imports in the five-to-seven year horizon to meet its clean energy goals and maintain reliability. PSE recommends the collection, observation, and assessment of data before Ecology considers additional

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constraints that could limit the resources available to Washington. These types of imports ensure Washington utilities can contract for – and receive in the market - clean supplies to comply with the state's clean energy laws.

Defining the Washington GHG Zone - loads for MJRPs

Ecology has proposed two options for modeling load in a Washington GHG Zone, Option A: Washington loads of an MJRP modeled in the Washington GHG zone, or Option B: Washington loads of an MJRP modeled external to the Washington GHG zone. PSE does not have a firm position on which option Ecology should pursue and generally defers to the MJRPs to make their case to Ecology. It is unclear to PSE how the loads of an MJRP are different from those of a FPMA, who also serves customers in multiple states but whose load is modeled within Washington.

CONCLUSION

In summary, PSE commends Ecology on the collaborative process it has conducted on the matter of CEMs and electricity imports and appreciates the opportunity to engage in this process and respond to Ecology's proposals in its June 26 workshop.

Sincerely,

/s/ Wendy Gerlitz

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