
Californication... and the rest of the West

I am reluctant to use this riff from the Red Hot Chili Peppers because it's so evocative of so many things that it could be overused. But I think this time and place in California and Western Power markets makes it applicable.

Let me start with some praise. The California ISO is a very capable and sophisticated grid and market administrator. I do not think they favor any market participant and, if allowed to be a regional market administrator, they would do a fabulous job, to the benefit of California and customers in any other states that were part of its territory. I think highly of Elliot Mainzer, Mark Rothleder and the rest of CAISO's management and staff. Having worked for a market administrator (PJM), I know it's a tough job, which if done correctly, will, at various times annoy everyone. That is why WPTF as an organization is so supportive of legislation (AB 538) to reform of CAISO's governance to allow it to be a regional market platform. But...

You will read in our CAISO Committee report that WPTF believes CAISO is about to make a serious misstep. It concerns the Day-Ahead Market Enhancement (DAME) proposal. Carrie does a good job summarizing misgivings with this proposal in her usual, uh, understated manner (irony intended).

Part of what CAISO seems to be doing is making haste to get a tariff completed on its regional market integration effort, the "Extended Day-Ahead Market" (EDAM – note the movement of the "E") which is related to DAME. CAISO is right to move quickly because SPP's Markets+ initiative, which is being offered as an alternative, is moving quickly and gaining momentum. Caitlin Liotiris and I attend the kick-off of Phase 1 of the market design that is now geared towards a tariff at the end of this year - within a few months after CAISO's intended date of filing at FERC (late August, perhaps). I sit on the Market Participants Executive Committee (MPEC) of the Markets+ effort and one could tell the train for this market offering is moving. Who will join it beyond Powerex (and probably BPA) is an open question - but there is a lot of interest. See Caitlin's report.

However, if the aforementioned AB 538 (Holden) bill gets approved by the California legislature then ground may shift back towards the CAISO. The bill did clear the first hurdle – the Utilities and Energy Committee of the Assembly - and will surely be approved by the Appropriations Committee (see Jesus' Legislative report). However, after hearing Labor interests very specious assertions about job loss – perhaps they haven't seen CAISO's massive transmission plan – and the paranoid views of TURN, one appreciates the challenges ahead for what should be a slam dunk of a bill that would benefit California and the region.

I once dreamed of filing a Section 206 complaint at FERC on CAISO governance, but the WPTF Board wouldn't agree. Perhaps we may need to revisit it... Nah, by the time FERC ruled it would be too late for CAISO. SPP would probably have scooped up the rest of the West leaving California as an island.

Scott Miller

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2023 Summer General Meeting

The Resort at Coeur d'Alene, Idaho
August 23-25, 2023

Registration opens in mid-May

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CALIFORNIA INDEPENDENT SYSTEM OPERATOR (CAISO) COMMITTEE

Carrie Bentley

Carrie Bentley is the co-founder and CEO of Gridwell Consulting and has over a decade experience in the energy industry across the ISO/RTO markets. Ms. Bentley currently provides analysis and strategic support on “all things California ISO,” including transmission, interconnection, capacity, storage assets, and the energy markets. Prior to becoming a consultant, Ms. Bentley most recently had been acting as a lead market design and regulatory policy developer at the CAISO, leading design and stakeholder initiatives in critical areas such as flexible ramping, resource adequacy, and renewable integration. Prior to the CAISO, Ms. Bentley was a consultant for GDS Associates, an engineering and economics consulting firm where she specialized in power supply contracting, natural gas hedging, and energy market design for a large range of clients in ERCOT, PJM, MISO, and SPP..

DAME, again

April was a busy month for the CAISO making changes to their Day-Ahead Market Enhancements (DAME) final proposal. This initiative is developing a day-ahead imbalance reserve product and enhancing Residual Unit Commitment (RUC) to replace some of the high amounts of RUC biasing by operators. We’ve lost track which final proposal we’re on, but this month included a Draft Revised Final Proposal, DAME storage workshop, and then an Addendum to the Draft Revised Final Proposal. We expect another Final Proposal to be issued that will be taken in May to the Board and Governing Body for consideration. It’s a challenging initiative to follow, and while we are glad additional time was taken to further the design, WPTF still does not believe this policy is ready to seek approval at FERC.

This concern is not solely about the design details themselves, but more a recognition that these rapid drafts include several new market design elements and significant changes from prior iterations. These items have not even been discussed with stakeholders other than the CAISO explaining the latest proposal during the April 7 stakeholder call, without providing any details in advance of the call. The call explained the latest changes to the stakeholder community, but stakeholders were not given enough time to consider and evaluate the impact of the new changes.

Furthermore, the CAISO continued to make drastic changes to the policy through subsequent workshops and addendums that were posted after what was expected to be the final stakeholder call. The only opportunity stakeholders have to respond to these last-minute changes is through these comments, which at this point there has not been any public discussion with the CAISO on the addendum which contains substantial changes to the market design. Given the changes from the April 7th policy paper to the April 19th addendum, it appears as though CAISO is struggling to nail down a robust market design.

And then we come to the market design itself. The goal of DAME is to reduce RUC biasing and move out-of-market action into the market, which WPTF strongly supports. But we also strongly support starting with a simple design and enhancing over time. DAME will fundamentally change the optimization, price formation, storage constraints, and bidding incentives in the day-ahead market. Approximately 90% of the CAISO’s value is in the day-ahead market. We believe it is too risky to leave significant details undetermined or not carefully considered.

Getting slightly into the weeds, WPTF has the following serious concerns with the latest proposal making it premature to seek CAISO Board approval:

- Several significant details, for example, whether the imbalance reserve product will be system, zonal, or nodal, have been left as “to be determined” during implementation efforts that will impact rates, terms, and conditions. Again, this is the day-ahead market, which is fundamental to the benefit of joining an ISO. These details are too important to be left undetermined.
- Newly introduced constraints for storage resources that have not been evaluated for efficient and appropriate interactions with existing constraints and constraints being implemented through other policy efforts. Around 10,000 MW of storage is expected to be online by the end of 2024. Storage is too large a piece of the CAISO’s reliability mix to be being treated as a side-note.
- CAISO has yet to support the need for imbalance reserve and RUC downward products, risking the entire proposal at FERC. Adding unnecessary products is also just bad market design as it increases complexity for no efficiency benefits.
- Two different demand curve designs for the imbalance reserve requirements were proposed within a two-week period, both of which have differing and substantial adverse market implications that have yet to be discussed.
- There is a newly introduced “lever” the CAISO operators can utilize to at their discretion that essentially allows them to move from a system framework to nodal framework for procuring imbalance reserves. This “lever” has the ability to change fundamental LMP price formation at the discretion of CAISO operators and will adversely impact the ability of entities to effectively hedge through participation in the CRR market.
- There is a newly proposed, unjustifiably low bid cap on imbalance reserves of \$55/MW that will harm efficient participation, most notably for the storage fleet, and make it almost impossible for thermal resources during high gas cost periods to provide bids that reflect their true trade-off value between providing imbalance reserves versus energy.

This initiative has been a priority for WPTF since its inception over 5-years ago, and we will continue to fight for a robust, transparent day-ahead market. WPTF is supportive of CAISO moving ahead with its Day-Ahead offering for a regional market integration. We are not looking for a fight, but this proposal will require a protest at FERC.

WIDER WEST COMMITTEE (2WC)

Caitlin Liotiris

Caitlin Liotiris is a Principal at Energy Strategies, where she has more than 15 years of experience supporting a wide range of clients in the electricity sector, including supporting market analyses and transmission development activities. Caitlin coordinates WPTF's Wider West Committee (2WC), which engages on market, policy, reliability and technical developments in the "wider West," generally outside of California. The 2WC is active in advocating for broader western energy markets, which includes active participation in the NorthWest Power Pool's Western Resource Adequacy Program (WRAP), and in coordination with the CAISO Committee on the EIM and EDAM, especially as they relate to tariff provisions and impacts outside of the CAISO. Caitlin brings her analytical, regulatory, policy and strategic expertise to bear in supporting 2WC members by providing information and advocacy on a wide variety of issues affecting the electricity industry.

Markets+ Kicks off New Governance Structure, with a Unique Stakeholder Process which will Provide the West an Opportunity to Make Market Decisions in a New Way

As observers of western market expansion are keenly aware, there are two day-ahead market options being developed in the West: the CAISO's Extended Day—Ahead Market (EDAM) and SPP's Markets+ offering. Whether you lament or cheer the existence of two different market options, it is clear that each market has at least one firmly committed participant and, thus, the likelihood of two market existing simultaneously in the West is very high.

As we reviewed in a January 2023 WPTF webinar comparing EDAM and Markets+, many of the market design elements have converged over time. However, one element that remains significantly different between EDAM and Markets+ relates to governance and, more specifically, the stakeholder process that is used to make policy decisions and approve tariff language and future market revisions.

CAISO's stakeholder and initiative process is well known across the West and is the process that was and will continue to be used for EDAM development. Markets+ has developed its own governance and stakeholder process to guide the effort which was recently put to the test at the first Markets+ "Phase One" meeting.

The Markets+ governance structure, while distinct from the stakeholder process for SPP's RTO is not all that dissimilar. Markets+ will be using this governance structure to establish the tariff language, and resolve remaining design issues that weren't proposed or resolved in the [Final Service Offering](#). The governance structure includes an Interim Markets+ Independent Panel (IMIP) to officially approve market design decisions and the tariff language. IMIP considers items that are brought to it by the participants committee: the Markets+ Participants Executive Committee (MPEC). The MPEC is made up of one representative from each of the Markets+ Phase One participants and is divided into three sectors (Investor-Owned Utilities, Public Power, and "independents").

Observers and participants got their first taste of the MPEC and IMIP processes and associated votes at the Phase One Markets+ meetings held on April 18th and 19th. The meetings were primarily administrative: considering a change to the voting allocations within the Independent sector, selecting MPEC leadership, approving charters, populating the rosters for the working groups and task forces, endorsing the accelerated timeline for tariff development, and endorsing changes in the service offering to support the accelerated timeline. While the votes and deliberations were almost exclusively administrative and organizational, they demonstrated how this new stakeholder process

might work and showed off some of the pros and cons of this approach relative to other approaches that have been used in the West.

On the negative side, the process was time-consuming, especially given the administrative nature of the tasks at hand. It took an inordinate amount of time for the group to agree to allow some additional entities to join, even though they would be past the original April 1st deadline. It also took a lot of back-and-forth to arrive at the right language to allow for more flexibility in the roster composition for task forces and work groups, even though everyone generally seemed to agree on the approach. Some in the hallways were asking when the group might get to the “real” market design issues and why this talented set of individuals was wasting its time on such small potatoes.

And yet, despite these downsides, the process worked, it seemed, as designed. Which brings us to the positive observations on this process so far. For starters, it allowed participants to “air their grievances,” put in their vote, and the group to achieve resolution and move on. For instance, two entities raised objections with the Markets+ Resource Adequacy Task Force Charter. The objection was, at its heart, regarding the proposed Resource Adequacy construct in the Final Service Offering,

which requires participation in the Western Resource Adequacy Program (WRAP) as a precursor for Markets+ participation. The issue was debated, with most entities indicating support for inclusion of this requirement and, thus, the task force charter. A vote was taken, and the group was able to move forward. Thus, the process provided a method for resolving disagreements and making decisions that didn’t require appeasing the loudest voice in the room.

To my knowledge, this type of stakeholder voting process, at this open and inclusive of a level, really hasn’t been attempted in Western market expansion efforts to date. It may provide an interesting path to move past disagreements in the West and not allow these discussions to “spin out” on an issue that a small number of entities keep raising. It’s also possible that, through the voting process, we will find that there isn’t enough consensus to move items forward and that the level of disagreement is too deep. While it’s impossible to know whether the Markets+ stakeholder process will work as designed, or if it will expose how deep the cracks are in the West, it’s certainly going to provide a different type of opportunity to advance market formation efforts in the region.

WPTF will be participating in the Markets+ stakeholder process, seeking to ensure the market design promotes open access and

competitive outcomes. Scott Miller is serving as the MPEC representative and Caitlin Liotiris will be a member of the Markets+ Transmission Working Group and Markets+ Congestion Rent Task Force. The WPTF Wider West Committee (2WC) will be monitoring MPEC meetings, Transmission Working Group meetings, Markets+ Congestion Rent Task Force, Markets+ Market Design Working Group, and Markets+ Seams Working Group meetings (to the extent possible!). This fast-paced and intense stakeholder process is going to be a challenge for all involved to keep up with, but it may also force resolution of issues and keep the design effort moving forward and we look forward to participating in it.

CALIFORNIA LEGISLATIVE COMMITTEE

Jesus Arredondo

WPTF Legislative Committee consultant is Jesus Arredondo. Jesus is the principal and founder of Advantage Government Consulting LLC and has over 19 years of experience in media and government relations, including concentrated experience in energy policy. Prior to launching Advantage Consulting, Jesus worked as a senior advisor for two major public relations firms in the United States and Mexico. Jesus also served as a policy advisor to a major California transmission project, principal advisor on an education effort in California concerning natural gas and on a national education campaign concerning the FERC's push for standard market design. Before launching Advantage Consulting, Jesus was a bilingual spokesman for two California governors and served five years as director of regulatory and government affairs for a fortune 250 independent power producer and two years at the California Power Exchange, where he served as director of corporate communications.

Newsom Pushes and Legislature Moves Energy Bills, But Will Some Get Stuck?

Just In January, Governor Gavin Newsom introduced his proposed budget that included language to address energy issues. That language has now been placed in two bills, AB 1373 and AB 1533.

AB 1533 makes changes to reporting requirements by the California Energy Commission (CEC) and the California Public Utilities Commission (CPUC).

While the more pressing issue is AB 1373, which would make the state Department of Water Resources the state's central power purchaser, citing the need to construct or acquire long-lead resources. The bill also requires "capacity payments" from LSEs that experience energy resource deficiencies during months when the state uses Electricity Supply Reliability Reserve Fund.

The Legislative Analyst's Office (LAO) flagged several issues with the Governor's proposal for the legislature to look into. A centralized procurement entity may not be needed when CCAs and IOUs already work collectively.

LAO also questions the need for central power purchaser when the state has yet to spend most of the existing energy funds. New charges and capacity payments may impact ratepayers, and a centralized procurement entity may affect the energy market. Centralized procurement also

shifts the risk from LSEs to taxpayers on long lead time resources.

The centralized procurement proposal will likely face significant opposition. However, with the Assembly Utilities and Energy Committee Chair as the author, it will likely make it out of the committee.

Regionalization

The Assembly Utilities and Energy Committee heard Assemblyman Chris Holden's bill, AB 538, which would be a step toward a regional transmission organization (RTO). WPTF submitted a letter of support for this bill and hearing.

The opponents were primarily led by organized labor who argued that 1.1 million California jobs would be lost to other states should a regional RTO be established as currently authored under AB 538. Those arguments, as well as the Legislature and Governor losing some oversight over a potential RTO, received the biggest pushback. Committee members were concerned that an RTO would not maintain California's clean energy goals and that smaller western states could join forces to push California in a different direction.

The proponents countered that there are multiple safeguards to maintain the state's clean energy laws, and the need for growth not only in California but in the West means job increases, not decreases.

The proponents also argued that Southwest Power Pool (SPP) Markets+ initiative, similar to the CAISO's Extended Day Ahead Market (EDAM) and Western Energy Imbalance Market (WEIM), has a list of entities that have made financial obligations to develop the market.

As AB 538's bill analysis states, "Should these entities leave the WEIM for Markets+, it is estimated that roughly 50% of WEIM managed load would be departing. The loss in benefits to the WEIM—whose value increases relative to the increase in the number and size of participants in the market—could be significant, greatly reducing the cost savings the WEIM provides to California's ratepayers."

While the analysis highlighted this issue, the Committee also argued that the utilities could be involved in the WEIM and Markets+.

After more than two and a half hours of deliberation, the bill passed on a 12-0 vote with some amendments to appease the labor unions. The bill preserves RPS Bucket 1 eligibility to in-state development and affirms California's clean energy policies under an expanded RTO.

Assemblymember Holden also appeared to commit to making AB 538 a two-year bill if the core issues can't be resolved in the next few weeks.

The WPTF Legislative Committee will follow these bills and others as they proceed through the Legislature. Keep in mind that we

are very early in the process. Also, this is the first year of a biennium. Anything introduced this year, could be "continued" into next year. AB 538 is presently rumored to be a 2-year bill.

Killing Diablo Canyon

PG&E was sued in April by Friends of the Earth in an attempt to block the utility from asking for an extension of federal licenses to run the Diablo Canyon nuclear power plant in California past 2025.

PG&E is "seeking the keys to continue operating its outdated nuclear power plant, situated near three dangerous seismic faults, for an indefinite period of time," Friends of the Earth said in its complaint.

Last month, the Nuclear Regulatory Commission (NRC) approved PG&E's exemption request to continue operations at the Diablo Canyon nuclear plant to ensure California's electricity reliability.

The possibility of a longer operating run emerged last year after Governor Gavin Newsom and the Legislature opened the way for PG&E to seek an extended lifespan for the twin reactors. The company intends to apply to the NRC by the end of the year to extend operations by as much as two decades.

Newsom's decision last year to support a longer operating run for Diablo Canyon shocked environmentalists and anti-nuclear advocates because he

had once been a leading voice for closing the plant.

The lawsuit marks the latest development in a long-running fight over the operation and safety of the decades-old plant, which Newsom urged should keep running beyond 2025 to ward off possible blackouts as California transitions to solar and other renewable energy sources.

Diablo Canyon produces 9% of the state's electricity.

At issue in the lawsuit is how a complex 2016 agreement to close the plant figures in the Legislature's decision to reverse itself to keep the reactors running. At the time the agreement to wind down Diablo Canyon was made, California utility regulators, the Legislature and then-Democratic Governor Jerry Brown agreed to the closure.

The complaint describes the 2016 agreement as a "contract," and asks the court to find it binding. It also asks for an order prohibiting PG&E from violating the contract. "PG&E acts as if it has no remaining contractual obligations," the complaint said, while asserting that the utility still has a responsibility to retire the nuclear power plant on schedule.

It's not clear if the reactors will continue operating beyond the expiration of their 2024 and 2025 licenses — and if so, for how long — since many regulatory milestones and unanswered questions remain.

CPUC COMMITTEE

Gregg Klatt

Gregg Klatt coordinates the CPUC Committee. Gregg is a practicing attorney with over 20 years of energy industry experience. With a practice focused on state and federal regulation of the electric power and natural gas industries, Gregg has represented clients in numerous rulemaking proceedings before the CPUC, CEC and CARB. He advises energy companies concerning regulatory requirements affecting their product and service offerings. He represents generators, marketers and retail suppliers in licensing, compliance and enforcement matters. And he provides regulatory counsel in energy-related transactional matters, including procurement contracting, resource development and repower projects, asset dispositions, and related financing arrangements. Gregg received his J.D. from UC Berkeley's School of Law and has a B.A. in History from the University of San Francisco.

It's a New Slice-of-Day

Nearly three years ago, the CPUC initiated an overhaul of its resource adequacy (RA) program to address “increasing penetration of use-limited resources, greater reliance on preferred resources, rolling off of a significant amount of long-term tolling contracts held by utilities, and material increases in energy and capacity prices experienced in California over the past years.” The overarching goal was to ensure LSEs will be resource adequate not only during the system’s annual peak hour but across all hours of the year. Many, many workshop hours and reams of comments later, the Commission issued a [decision](#) earlier this month that adopts a new RA program framework to go into effect for the 2025 compliance year.

Under the new framework, dubbed “slice-of-day,” load-serving entities (LSEs) will need to demonstrate compliance with 24 hour-specific resource adequacy requirements for each month. System requirements for each hour will be set based on the “worst day” in the month, defined as the day containing the hour with the highest forecast coincident peak load. LSEs will then be allocated shares of the hourly system requirements based on their monthly-hourly load forecasts. LSEs that do not meet their full requirements will be assessed penalties based on the hours in which they have the largest deficiencies.

The new framework will also bring changes to how the qualifying capacity (QC) of some participating resources will be counted. The effective load carrying capacity (ELCC) methodology currently used to value solar and wind resources will be replaced with an exceedance-based methodology and resource-specific production profiles. Dispatchable resources will continue to be counted at their Pmax values. As will standalone storage; however, the LSE claiming the storage will now need to demonstrate that it has sufficient “excess” capacity across the day to fully charge the storage. The QC of hybrid resources will be set based on the Pmax value of the storage and the exceedance-adjusted value of the renewable generation. Resource-specific imports will be valued based on the underlying resource type, while the current delivery requirements for non-resource specific imports will be retained.

The Commission has designated 2024 as a “test year” for the new framework. LSEs will be required to submit two sets of RA reports for the 2024 compliance year— one set for the requirements under the existing RA framework, and a second set for non-binding slice-of-day requirements. In addition to providing a penalty-free opportunity for LSEs and suppliers to prepare for full implementation of slice-of-day, the test year is intended to allow time for the

CAISO to make any changes to its tariff and systems that may be needed to accommodate the new framework. The Commission has also directed staff to solicit stakeholder feedback and prepare a report on any slice-of-day implementation issues that may arise during the test year, and stakeholders will have an opportunity to submit formal comments on the report. The Commission has made it clear, however, that it “fully intends to move forward” with implementation of the new framework for the 2025 compliance year. We shall see.

Winter Gas Prices Investigation

Unlike the RA slice-of-day decision, which was issued without fanfare and garnered little attention outside the energy industry, the CPUC’s launch of an investigation into the causes of this past winter’s exceptionally high natural gas prices warranted a lengthy [press release](#), in which four of the five commissioners got juicy quotes, and made national headlines. Never mind that the Commission has no jurisdiction over the state’s natural gas producers, much less the broader wholesale gas market. What is important is that the Commission be seen as doing something—anything—about the situation.

The Commission’s [order](#) instituting the investigation names PG&E, SoCalGas, SDG&E, SCE, Southwest Gas, and independent

storage providers as respondents. (The order excludes core transport agents, which are licensed by the CPUC, from the list of respondents.)

The order provides that “the Commission will investigate 1) the causes and impacts of the winter 2022-2023 gas price spikes and the potential for recurrence, 2) the impact of the 2022-2023 price spikes on gas and electric prices and gas and electric customer bills, 3) potential threats to gas and electric reliability and price volatility in summer 2023 and beyond, and 4) potential mitigations.” In addition, the order directed the respondents and other parties to address the following issues in comments:

- Factors that caused or contributed to the high gas prices.
- Whether any of the entities under the Commission’s jurisdiction played a role.
- Actions the CPUC or other entities can take to avoid the likelihood that similar price spikes will occur in the future.
- Actions the CPUC can take to mitigate the harm to ratepayers if such price spikes do recur.
- Additional information that the CPUC should collect or examine to further understand wholesale market dynamics.
- Gas and electric market interactions affecting costs

to consumers that the CPUC should examine and/or investigate.

- Utility communications to customers about the high gas prices, and whether any changes should be made in the future.

The respondents and a handful of other parties filed comments on April 19. Having reviewed the comments, I can report that they did not bring any new, groundbreaking information to light. Notably, however, the Commission’s Public Advocates Office, whose stated mission is “to obtain the lowest possible rate for service consistent with reliable and safe service levels,” used the opportunity to support PG&E’s proposal to retain its largest storage facility (Los Medanos), which the utility had previously planned to close or sell off, and to urge the Commission to consider increasing the maximum allowed inventory at SoCalGas’s Aliso Canyon storage facility. (The same day comments were filed, SoCalGas filed a [petition](#) asking the Commission to do just that.) While both measures would help reduce California’s exposure to future price spikes, it is certain that they will be strongly opposed by environmental and other public interest groups.

CARBON AND CLEAN ENERGY COMMITTEE

Clare Breidenich

Clare Breidenich coordinates WPTF's Carbon and Clean Energy Committee. In this role, Clare has been actively involved in the development of California's cap and trade program since its inception and has particular expertise on issues related to the treatment of electricity imports under the program and the interactions of the carbon market and the markets operated by the CAISO. Clare also represents WPTF on matters related to carbon and clean energy policies in other western states.

Prior to joining WPTF, Clare worked on international climate issues at the Environmental Protection Agency, the US Department of State and the United Nations Framework Convention on Climate Change Secretariat. Clare has extensive knowledge of the technical and policy options for greenhouse gas mitigation, including market mechanisms, and methodologies and protocols for estimation, reporting and verification of greenhouse gas emissions and reductions. She has served on the Washington Governor's Climate Action Team, the Washington Carbon and Electricity Markets Workgroup and on a National Academy of Sciences' Committee on monitoring of greenhouse gas emissions. Clare is a graduate of the University of Michigan and has a Master of Public Affairs and a Master of Science in Environmental Science from Indiana University School of Public and Environmental Affairs.

Washington Cap and Trade Program Getting Clearer

As I reported in the last issue, electricity sellers in Washington were pretty much flying blind when it came to including carbon prices in electricity offers due to uncertainty around allowance prices under the Climate Commitment Act (CCA). It was also unclear which electricity transactions would result in a carbon obligation under the CCA, and which entity bears the carbon obligation for a given import transaction.

But four months on, and we have much more clarity on carbon price signal -- the first auction of allowances cleared at \$41.80 per tonne, significantly higher than California. Additionally, significant progress has been made on the questions around electricity imports, thanks to fruitful conversations with the Department of Ecology.

Following extensive consultations, WPTF and 24 other parties submitted a [letter](#) to the Department of Ecology in early March explaining the uncertainty around electricity imports under the program and highlighting omissions. The letter noted that this uncertainty would undermine environmental integrity by causing incomplete and inconsistent reporting of imports and associated emissions, thereby impairing linkage to California. Different interpretations of the rules could also create

contractual disputes, undermine market liquidity at MID-C and result in higher electricity costs for Washington consumers. To remedy these problems, the letter requested that Ecology adopt formal guidance based on a document prepared through the WPTF consultations.

The response from Ecology was swift and positive. Staff held a listening session with stakeholders in late April, when the vast majority of electricity market participants, as well as several of the state environmental organizations, voiced support for the consultation document and expedited adoption of guidance. Although we do not yet know how soon such guidance will be published, we can be confident that it's coming and that it will comport with the recommendations made in the document. In the meantime, Ecology notified Electric Power Entities that the deadline for submitting 2023 GHG reports is extended to September 1st from June 1st. To take advantage of this extension, each entity must submit an "Intent to File" form to Ecology by June 1st. If you have not received this email notification, please contact Clare for information.

Ecology emphasized that the extension is one-time only, and does not in any way change compliance obligations. As if to drive home that point, Ecology also recently published "[Cap and Invest Program Compliance and](#)

[Enforcement Guidelines](#)". This document explains Ecology's process for determining and enforcing penalties for violation of reporting requirements and rules around auction participation and market behavior.

Because Ecology's communication system does not appear to be working smoothly yet, I want to callout a few other matters that you have missed.

- In late January, [Cap-and-Invest Guidance on Electricity Exports from Washington to California](#) was posted. This is a nothing-burger that basically regurgitates what is in the program rule regarding deferral of the compliance obligation for exports to California.
- Ecology also posted notice of approval of BPA as an [Asset-controlling Supplier](#) along with the emission factor for this year.
- The amount of each [electric utility's allowance allocation](#) was posted in late April. Ecology indicated that transfer of the allowance allocation for the year is imminent for utilities that have set up an account in the Compliance Instrument Tracking System Services (CITSS). Once the allowance hit the utility accounts, they will be available to be consigned to auction.
- Ecology also just announced an Emergency RuleMaking to clarify rules for the Allowance Price Containment Reserve

(APCR). Per the email notice, the rulemaking will clarify that holding limits apply to APCR allowances and that any allowances purchased in an APCR auction must be deposited directly into an entity's compliance account. The timeline for this rulemaking was not stated in the notice and it is not clear whether Ecology will be taking comment. Once adopted, the revision will go into effect immediately. The urgency is driven by the need to conduct an APCR auction on August 9th, if the next allowance auction clears above the APCR Tier 1 trigger price of \$51.90.

- And lastly, Ecology is taking [comments on linkage](#) through May 15th.

In a related matter, the Utilities and Transportation Commission (UTC) has initiated a [series of workshops](#) intended to improve understanding of how the CCA affects IOUs and their customers, and interacts with the state's clean energy program, the Clean Energy Transformation Act. UTC has requested comment on topics for upcoming workshops, which may impact future rulemaking by both UTC and the Department of Commerce, which oversees energy matters related to the Washington Public Utilities. These workshops could provide an opportunity for discussion of the need for better oversight of how utilities use freely allocated allowance and

auction revenue, and potential impacts on energy market competitiveness. Comments are requested by May 10th.

CARB to Initiate a new Rulemaking Soon

Keen-eyed observers will have caught the "[Important Process Information Regarding Cap-and-Trade Regulatory Updates](#)" published by the California Air Resources Board in late February. This document serves notice of CARB's intent to initiate a new rulemaking to amend the cap and trade program.

While the 2022 Scoping Plan lays out the state strategy for achieving carbon neutrality by 2045 and is the ostensible driver for the regulatory amendments, I doubt that it is the primary driver given that most of the Scoping Plan's aggressive emission reductions are planned for sectors and activities outside of the program caps. A review of CARB's list of key topics and activities, suggests that the rulemaking is driven more by the need to play defense against the Legislature and Environmental Justice Community (e.g. re-evaluation of supply of banked allowances, mechanisms to address impacts on low-income households). Additionally, a planned retrospective electricity sector leakage study and potential updates to address EDAM indicate that the centralized energy market issues will continue to be a focus. Additionally, from

conversations with staff, I think we can expect CARB to get into new GHG accounting and reporting issues around energy storage, and carbon capture, storage and utilization. CARB plans to publish the full rule-making schedule early this summer.

Lastly, I would be remiss if I didn't mention WPTF's upcoming involvement in the GHG component of SPP'S Market's + effort. SPP has created a GHG taskforce under the Market Design Committee. I will represent WPTF on that taskforce to support the crack team of Caitlin Liotiris and Scott Miller.

Should make for an interesting year for carbon policy and market in the West... Stay tuned!