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VIA ELECTRONIC SUBMISSION

Attention: Gopika Patwa, Rulemaking Lead
Washington Department of Ecology
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**RE: Rulemaking - Informal Public Comment Period for Electricity Markets Rule
(Chapters 173-441 and 173-446 WAC)**

The California Independent System Operator Corporation (ISO) appreciates the opportunity to submit the following comments to describe our efforts to design a market mechanism to allow Washington to identify the first jurisdictional deliverer for electricity imports in connection with transactions from a centralized electricity market. Our comments explain how this market mechanism can complement the rules Washington is considering. We stand ready to work collaboratively with the Department of Ecology and its stakeholders and provide additional information necessary to support the record of this rulemaking.

About the ISO

The ISO is a 501(c)(3) not for profit public benefit corporation charged with managing the flow of electricity across the high-voltage lines that form the electric grid in its balancing authority area. To do so, the ISO operates a wholesale energy market. The ISO is also the market operator for the Western Energy Imbalance Market (WEIM), which allows participating balancing authorities to buy and sell power close to real-time and balance fluctuations in supply and demand over a larger footprint. The WEIM automatically finds lower-cost resources to meet real-time power needs over this larger footprint and delivers significant benefits to participating entities. Since inception, WEIM has generated over \$4 billion in gross benefits for participating utilities and has allowed them to share power in real-time during stressed grid conditions. In addition to economic and reliability benefits, WEIM has facilitated greater renewable integration, thereby reducing emissions. The CAISO recently completed a stakeholder initiative to extend a day-ahead market platform (the Extended Day Ahead Market, or EDAM) to

participants in the WEIM who chose to join. Several Washington electric utilities currently participate in the WEIM.

Market Mechanism to Identify Electricity Importers

Resources offering their supply into the WEIM submit a bid representing their willingness to sell energy in the market and at what price. Resources include their operating costs in their bids to ensure they can recover their costs through the market. Resources located in a state – like Washington – that assigns a compliance obligation on carbon through a cap and invest program may include those costs as an operating cost in their bid. The market finds the least cost solution based on resources' bids and any constraints on the system.

Today, the WEIM uses a GHG bid adder as a market mechanism to identify which specific resources located outside of California serve demand within California. Scheduling coordinators for resources outside of California voluntarily submit this cost-based GHG bid adder, composed of a dollar value and MW quantity, to indicate a willingness to serve load in California and be subject to compliance as the electricity importer. California treats the scheduling coordinator for the resource, which is the source of emissions, as the first jurisdictional deliverer. If a resource outside of California submits a zero MW GHG bid, that resource will not receive an attribution to serve California load. The ISO proposes to make similar functionality available for resources located outside of Washington to signal their willingness to serve load in Washington.

With the implementation of EDAM, set for the spring of 2025, the ISO will make changes to its market rules to allow for multiple GHG regulation areas in both the WEIM and EDAM. At the start of EDAM, the ISO anticipates two GHG regulation areas representing the boundaries established by California and Washington, though the framework will allow for additional GHG regulation areas if more states adopt policies that price carbon. The ISO's market will also support a single GHG regulation area in the case where jurisdictions link their programs. Resources outside of either GHG regulation area will be able to submit separate GHG bid adders specific to each GHG regulation area to indicate a willingness to serve the load in that GHG regulation area. If the market attributes these resources to serve load in a GHG regulation area, the resource will recover a payment to cover their compliance costs with the applicable state GHG program.

Washington Rules to Identify a First Jurisdictional Deliver for Imports from a Centralized Electricity Market

Washington's interim rules for identifying the electricity importer for transactions from WEIM focus on load serving entities: the first jurisdictional deliverer is the "energy imbalance market purchasing entity located or operating in Washington that receives

delivery of electricity transacted through the energy imbalance market.”¹ This interim approach creates a disparity between resources internal to Washington and external to Washington, as those external resources do not have a direct cost of compliance under Washington’s program. However, the ISO’s proposed attribution mechanism will allow Washington to identify the source of emissions serving Washington load. The market will rely on GHG bid adders to identify which resources located outside of the state of Washington and participating in a centralized dispatch serve Washington demand. Washington can look to scheduling coordinators for these resources, which are the source of emissions and receive market payments to account for the cost of compliance, as the first jurisdictional deliverers. A benefit of this approach is that it treats resources participating in a centralized dispatch whether they are inside or outside of the state on a comparable basis under Washington’s cap-and-invest program.

Addressing Secondary Dispatch

The WEIM/EDAM market design also creates a foundation for Washington to account for emissions leakage that may arise in connection with electricity imports. The potential for this emission leakage occurs when the market attributes clean resources to serve demand in a jurisdiction with a carbon-priced GHG program and other higher emitting external resources backfill to meet external demand. This is known as secondary dispatch. The ISO will propose enhancements to mitigate the potential for secondary dispatch in its EDAM design. These mechanisms will more accurately identify those resources located outside of Washington with available capacity to serve load within Washington. In addition, the ISO can provide market information to the Department of Ecology regarding whether secondary dispatch actually occurred in connection with electricity imports to serve Washington load. This information can support more accurate accounting of what emissions occurred when Washington load consumes an electricity import. This information may also support compliance processes to retire allowances associated with those emissions.

GHG Coordination Efforts

Market rules governing WEIM and EDAM participants need to align with the rules the Washington Department of Ecology will adopt in this rulemaking. The ISO will work collaboratively with the Department of Ecology, other Washington agencies, WEIM/EDAM entities, and other stakeholders to achieve this alignment.

The ISO is also hosting a series of stakeholder-driven working group meetings to encourage discussion on a number of GHG topics as they pertain to the ISO market and in anticipation of future market enhancements. More information about these

¹ WAC 173-446-040(3)(e)(iv). This provision also accounts for electricity that is generated by a first jurisdictional deliverer that already has a compliance obligation, noting that there is no compliance obligation for that same energy if it is delivered to an energy imbalance market purchasing entity in Washington.

working group meetings is available on the ISO's website at <https://stakeholdercenter.caiso.com/StakeholderInitiatives/Greenhouse-gas-coordination-working-group>. The ISO welcomes engagement from all stakeholders.

The ISO appreciates the opportunity to provide these comments and is ready to offer any technical expertise or additional information about the ISO's market to Washington agencies and the stakeholders in this rulemaking. The ISO would welcome an opportunity to provide an informational presentation in this rulemaking on how the WEIM/EDAM design will allow Washington to identify the first jurisdictional deliverer of an electricity import arising from a centralized market dispatch of resources.

Sincerely,

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