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State Of WASH.
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COMMISSION

June 2, 2020

Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

RE: Docket UE-191023: Comments of the Western Power Trading Forum Relating to Clean Energy Implementation Plans and Compliance with the Clean Energy Transformation Act

Dear Mr. Johnson,

The Western Power Trading Forum¹ (WPTF) appreciates the opportunity to provide input to the Washington Utilities and Transportation Commission on Rules Relating to Clean Energy Implementation Plans and Compliance with the Clean Energy Transformation Act (CETA). WPTF comments specifically address Annual Clean Energy Progress Reports, particularly the attestation regarding the use of coal-fired resources.

Elimination of Coal Fired Resources

Paragraph 3(a) of Section WAC 480-1-665 of the draft rule (Reporting and Compliance) requires each utility to submit an annual attestation that it does not use any coal-fired resources to serve retail load. This provision is in response to the CETA requirement that each utility eliminate coal-fired resources from “its allocation of electricity” by December 31, 2025. The CETA’s reference to the allocation of electricity allocation appropriately puts this requirement in the context of utility ratemaking. Allocation in this context is usually understood to mean the ownership or investment in specific resources that affect customer costs. It is not typically understood to mean unspecified market purchases that utilities undertake to address gaps in power supplied by their own or contracted assets. This approach is consistent with that taken by states such as Oregon and California in requiring their utilities to divest of coal resources.

However, the draft rule’s requirement that an executive “has reviewed all e-tag data for the prior calendar year and found no electricity from coal-fired resources was included in market purchases and therefore no such electricity was included in retail customer rates” goes beyond the letter and intent of the CETA, since it would also apply to unspecified market purchases.

Most of the physical electricity sold in the west, including that offered on the Intercontinental Exchange for delivery at the Mid-Columbia trading hub, is sold using the standardized WSPP “Schedule C” Agreement. The Schedule C enables parties to the contract to determine a delivery point, duration, volume and price, but does not require differentiation of the source. A further complication is the fact that electricity is frequently bought and sold by intermediaries

¹ WPTF is a diverse organization of over 90 members comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West.

between the generation owner and the ultimate buyer, the load-serving entity. Many of these intermediaries are marketers, but generators and utilities also participate in the market. These intermediaries engage in numerous market transactions, contracting with both utilities and generator owners/operators to provide the liquidity needed for balancing, hedging and risk management. The resource that ultimately provides the electricity for a particular contract is often determined in real-time by market economics (e.g. generator prices) and grid conditions, such as congestion and outages. While the source of power may be identifiable after delivery by examining the North American Electric Reliability Corporation (NERC) tag used to schedule transmission, neither the purchasing utility nor the counter-party will know the generating source, let alone be able to control it, when they contract for power².

The general exceptions are contracts for renewable energy and “specified source” contracts for low-emission electricity intended for import into California. The advent of carbon pricing in California under the cap and trade program prompted the development of specified contract terms (called the WSPP Schedule C Specified Source Exhibit) to facilitate compliance with California’s rules. Because these specified source contracts are not standardized, they are used only for direct, bilaterally negotiated transactions and therefore are not offered on ICE. While some stakeholders argue that the market could evolve to create a contracting model that would enable utilities to comply by the draft rule’s attestation requirement, such contracts would also likely not be standardized. Forcing Washington utilities to essentially use specified contracts for all their electricity procurement would eliminate much of the market efficiency and liquidity that exchange-traded, Schedule-C power provides.

Given these facts, WPTF recommends that this provision be modified to require that each utility required to attest *only* that it did not contract for electricity that was sourced from a coal-fired resource when it purchased unspecified power from a market intermediary or via an exchange. If UTC is unwilling to make this change at this time, then WPTF recommends that UTC defer the issue until it has been considered by the Carbon and Electricity Markets Workgroup. Paragraph 3 of Section 13 of the CETA, which establishes the Workgroup, specifically calls out verification and reporting requirements for the treatment of retail load met with market purchases. The applicability of the CETA requirement on elimination of coal resources to market purchases of

² California’s decision to implement its clean energy standard through the IRP process was due in large part to its recognition of the impossibility of assessing and determining after-the-fact compliance of the standard for market purchases of electricity. The California Air Resources Board (CARB) looked carefully at the question of whether they could prevent coal from coming into the state as unspecified power in the context of the resource-shuffling prohibition under the Cap and Trade program. Although CARB did eventually include language in its rules that excludes short-term transactions from the definition of resource-shuffling (which Washington’s legislation echoes), it was unable to establish an effective mechanism to ensure that electricity sourced from coal-resources does not enter the state due to the nature of wholesale market transactions and the inability of electricity buyers to control the source of electricity for commodity power purchases.

unspecified electricity purchases clearly falls within the scope of the Workgroup's consideration.

Thank you for your consideration.

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