

Washington Clean Energy Transformation Act (CETA)
Carbon and Electricity Markets Work Group (MWG)
Second Public Work Session
Wednesday, November 18, 2020

ISSUE 5: Elements of Compatibility of CETA and a Linked Cap-and-Trade Program

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Stakeholder work group.

- (1) The department and the commission must convene a stakeholder work group to examine the:
- (a) Efficient and consistent integration of chapter 288, Laws of 2019 and transactions with carbon and electricity markets outside the state; and

(b) Compatibility of the requirements under chapter 288, Laws of 2019 relative to a linked cap-and-trade program.

Threshold Question: What is the meaning of “a linked cap-and-trade program”?

- a) Washington implements CETA and joins a linked cap-and-trade program that includes other Western jurisdictions (e.g., California)
- b) Washington implements CETA and a cap-and-trade program that is not linked to other Western jurisdictions
- c) Other?

Assumed Meaning: Washington implements CETA and joins a linked cap-and-trade program that includes other Western jurisdictions (e.g., California).

Compatibility Elements

- Potential impacts of a linked cap-and-trade program on resource economics and wholesale power markets:
 - Incremental dispatch costs for GHG-emitting generating resources
 - Resource stacking order for economic dispatching of resources
 - Wholesale power price formation and market efficiency
 - Inter-jurisdictional leakage/resource shuffling/resource use issues
 - Utility integrated resource planning and acquisition decisions
- Considerations related to the scope and design of the linked cap-and-trade program:
 - Market size and geographic scope
 - Method for allocating free allowances for GHG emissions
 - Disposition and use of revenues from sales of GHG emissions allowances
- Impacts of a linked cap-and-trade program on achievement of CETA objectives:
 - GHG emissions (e.g., amount and pace of GHG emissions reduction)
 - Costs to serve retail electricity consumers
 - Equitable distribution of energy and non-energy benefits
 - Reduction of burdens to vulnerable populations and highly-impacted communities
- Interactions between CETA and a linked cap and trade program
 - Potential for GHG emissions to be subject to both CETA alternate compliance payments and cap-and-trade GHG emissions allowance costs (including opportunity value)
 - Credits for energy transformation projects (CETA alternate compliance credits vis-à-vis cap-and-trade GHG emissions allowance credits)
 - Accounting for renewable attributes (double counting)
- Seasonal and hourly variation in carbon intensity
- Interaction between electricity markets and other energy sectors