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Powerex Corp.'s comments to Washington state's Department of Ecology on linking Washington's Cap-and-Invest program with other markets

Powerex Corp. ("**Powerex**") submits the following comments in response to the Department of Ecology's ("**Ecology**") request for input on connecting Washington's carbon market with other markets, specifically the California and Québec markets.

As an importer of electricity into Washington state, Powerex participates in the Washington carbon market. Powerex also imports electricity into California and, accordingly, participates in California's carbon market (which linked with Québec's in 2014).

Powerex generally supports linking the Washington, California, and Québec carbon markets and believes doing so has the potential to result in shared benefits and efficiencies across electricity markets. However, linking markets is not without its challenges.

Where there are issues or flaws in one market or program, absent mitigating measures, linkage would serve to extend those risks across the broader footprint of the linked markets. For example, where leakage or double counting risks arise because of the program rules and market design of a jurisdiction, those same risks would persist in all linked jurisdictions. Powerex encourages Ecology to identify where there are leakage and double counting risks in Washington's market, as well as the California and Quebec markets.

With respect to California, Powerex has previously discussed the risk of emissions leakage and double counting in the Western Energy Imbalance Market ("**EIM**") caused by the California Independent System Operator's ("**CAISO**") specific least cost dispatch algorithm, also referred to as the "deeming" algorithm. Many of the flaws associated with this algorithm have been extended into CAISO's design for its Extended Day-Ahead Market ("**EDAM**"). For both the EIM and EDAM, the algorithm enables the dispatch of high-emitting generation (such as coal-fired generation) from *outside* of California to serve load inside California while "deeming" it to be from lower-emitting generation (such as hydro generation) for the purpose of California's GHG emissions program. For Washington state, the risk is the integrity of its program is undermined as higher emitting resources are favoured by the deeming algorithm's failure to properly attribute the emissions of the generation that is dispatched to serve Washington load. Powerex has done extensive modelling on the issue and makes several recommendations that it hopes are useful as Ecology seeks to better understand it.¹

In Washington state, on the other hand, the potential for emissions leakage is a result of gaps and ambiguity in the electricity importer rules.² In both cases, the risks can likely be mitigated through program amendments or the linkage agreement, but both the risks and any potential mitigation

¹ Powerex, "The Western EIM's Approach to Applying California's Cap and Trade Program to Imports is Undermining the Program's Core Objectives" (July, 2022) ([Full Paper](#)) ([Executive Summary](#))

² Powerex appreciates Ecology's responsiveness to the industry whitepaper on this topic and acknowledges Ecology's willingness and effort to address these issues through guidance.



measures are highly complex and will require significant time and stakeholder engagement to navigate.

Powerex reiterates its support for exploring linkage of Washington's carbon market with those of California and Québec. Should Ecology elect to pursue linkage, Powerex respectfully encourages Washington to initiate a discussion of leakage and double counting risks early in the process to afford time to evaluate how those risks may be appropriately mitigated.

Powerex looks forward to continuing to participate in Ecology's linkage decision making process and to continuing to support Washington's Cap-and-Invest program.

Frank Durnford
Executive Director, Market Policy