

SOUTHWEST POWER POOL
MARKETS+ GREENHOUSE GAS TASK FORCE (MGHGTF) MEETING
Oct. 24, 2023, 11:03 p.m. CDT to 3:12 p.m. CDT | Net Conference: WebEx
WebEx Recording: MGHGTF [20231024](#) | Recording Password: 5wReUNRy

SUMMARY OF MOTIONS AND ACTION ITEMS

APPROVAL ITEMS

1. Kyle Frankiewich moved to approve the Oct. 17, 2023 meeting minutes. Laura Trolese seconded and the **motion passed** without discussion.
2. Ian Hunter moved, and Lauren McCloy seconded, to approve Greenhouse Gas Programs tariff language as presented and revised on Oct. 24, 2023:
 - for consideration by the Markets+ Design Working Group, and
 - contingent on SPP including language in the FERC transmittal letter addressing work in progress:
 - to explore market design elements for GHG Reduction Programs and their requirements for dispatch, tracking and reporting to meet their obligations and goals,
 - development of a Data Reporting Criteria governing document that asserts and governs SPP's role in data reporting to support states' and utilities' efforts to meet their states' compliance obligations.
 - and for SPP staff to conduct analysis, at the direction of the MGHGTF, on the impacts of market design options, to be provided to the MGHGTF, MDWG and MPEC.

The **motion failed** with 16 opposed, seven in favor and one abstention.

NEW ACTION ITEMS

- MGHGTF members who wish to have statements included in the minutes of the 10/24 meeting to provide context for their vote on tariff language at that meeting should provide them to SPP staff.
- Staff will seek feedback on next steps from the Markets+ Design Working Group and Markets+ Participant Executive Committee, and will discuss next steps with MGHGTF members at the next meeting, on Nov. 14, 2023.

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MINUTES

ITEM 1 – CALL TO ORDER AND ADMINISTRATIVE ITEMS

MGHGTF Chair Mary Wiencke called the meeting to order at 11:03 p.m. CDT. She conducted a roll call of members and proxies (see Attachment B: Attendance) and established quorum.

Secretary Assistant Russell Carey read the recording and antitrust notices. Mary Wiencke invited discussion on the Oct. 17, 2023, meeting minutes. Kyle Frankiewicz moved to approve the minutes. Laura Trolese seconded and the motion passed without discussion.

ITEM 2 – TARIFF LANGUAGE DISCUSSION & VOTE

Chair Wiencke reviewed the agenda discussed the process for the day: a discussion of greenhouse gas tariff language updates, final revisions to tariff language, and an intent to vote on the tariff language as revised. She invited MGHGTF members to make statements about the reasons for their votes when they voted on the language and the group discussed options for the vote.

Christine Dillard led a review of updates to tariff language since the Oct. 17, 2023, meeting. The task force discussed then began a review of the latest version of the tariff. During the review, the task force made clarifying edits to sections 2.4.1.1 - 2.4.1.3.

The task force engaged in discussion about the definitions of GHG pricing zones and non-GHG pricing zones, and how the development of additional zones in the future – including those for non-priced GHG reduction programs – would align with the language. After a series of revisions, it was determined that the term “non-GHG pricing zone” would no longer appear in the tariff language and the definition was removed.

The MGHGTF recessed from 1:01 p.m. to 1:16 p.m. CT for a break.

After additional discussion and revisions, staff added a new section, 3.1.8, to describe a Markets+ participant’s ability to opt-out of offering energy into a GHG Pricing Zone. After completing final revisions to the greenhouse gas tariff language, Chair Wiencke invited consideration of a vote to approve the language.

The task force spent some time discussing the preferred language for a motion for the vote, reviewing four proposed sets of motions from staff and ultimately deciding on a fifth motion for consideration, as described below.

Ian Hunter moved, and Lauren McCloy seconded, to approve Greenhouse Gas Programs tariff language as presented and revised on Oct. 24, 2023:

- for consideration by the Markets+ Design Working Group, and
- contingent on SPP including language in the FERC transmittal letter addressing work in progress:
 - to explore market design elements for GHG Reduction Programs and their requirements for dispatch, tracking and reporting to meet their obligations and goals,
 - development of a Data Reporting Criteria governing document that asserts and governs SPP's role in data reporting to support states' and utilities' efforts to meet their states' compliance obligations.
- and for SPP staff to conduct analysis, at the direction of the MGHGTF, on the impacts of market design options, to be provided to the MGHGTF, MDWG and MPEC.

Chair Wiencke invited discussion on the motion. Commissioner Aguilera expressed appreciation for expressed concerns and attempts to alleviate through both revisions to the tariff and to the motion. He expressed that neither alleviated his concerns, or the concerns of a set of commissioners from a number of states, about Type 1A resources, enhanced floating, need for non-priced GHG reduction programs inclusion, as outlined in a joint statement provided to SPP staff and members of the MGHGTF the morning of Oct. 24, 2023 (See Attachment C – Joint Statement).

Chair Wiencke invited others to make statements as they cast votes on the motion, or to provide written statements (See Attachment E – Submitted Statements) to SPP staff after the conclusion of the meeting, for inclusion in the meeting minutes. Chair Wiencke called for votes (See Attachment D – Oct. 24, 2023 MGHGTF Vote), and task force members cast their votes and provided statements for their choice of vote. The motion failed with 16 opposed, seven in favor and one abstention.

ITEM 3 – NEXT STEPS AND OPEN DISCUSSION

With the vote on proposed greenhouse gas tariff language failed, Chair Wiencke discussed next steps. The MGHGTF would provide updates on the status of its tariff development to the Markets+ Design Working Group (MDWG) and Markets+ Participant Executive Committee (MPEC) at their upcoming meetings and seek feedback from those groups on next steps. Secretary Kim O'Guinn asked the task force to submit their written statements to SPP staff as soon as possible and thanked the group for their efforts. Chair Wiencke noted the date of the next MGHGTF meeting, Nov. 14, 2023.

AGENDA ITEM 4 – ACTION ITEMS

Two action items were noted from the meeting:

- MGHGTF members who wish to have statements included in the minutes of the 10/24 meeting to provide context for their vote on tariff language at that meeting should provide them to SPP staff.
- Staff will seek feedback on next steps from the Markets+ Design Working Group and Markets+ Participant Executive Committee, and will discuss next steps with MGHGTF members at the next meeting, on Nov. 14, 2023.

AGENDA ITEM 5 – ADJOURNMENT

Chair Wiencke adjourned the MGHGTF at 3:12 p.m. CDT.

Attachments: Agenda, Attendance, Joint Statement, Oct. 24, 2023 MGHGTF Vote, Submitted Statements.

SOUTHWEST POWER POOL, INC.
MARKETS+ GREENHOUSE GAS (GHG) TASK FORCE
October 24, 2023 | 9 a.m. – 1 p.m. PT | 10 a.m. – 2 p.m. MT | 11 a.m. – 3 p.m. CT

Virtual Meeting
WebEx: [2482 611 1430](https://24826111430.jbpbztyrt22.zoom.us/j/24826111430) | Password: 8pPBZTyRt22

This meeting will be recorded. By attending the meeting, you are consenting to be recorded.

AGENDA

1. **Call to Order and Administrative Items**
 - a. Statements: Notice of Recording & Anti-trust Statement..... Kim O’Guinn
 - b. Roll call Mary Wiencke
 - c. Oct. 17, 2023 Meeting Minutes ([Approval Item](#)) Mary Wiencke
 - d. Review of Action Items..... Kim O’Guinn
2. **Tariff Language Discussion & Vote ([Approval Item](#))**..... Mary Wiencke
3. **Next Steps & Open Discussion**..... Mary Wiencke
4. **Action Items**..... Kim O’Guinn
5. **Adjournment**..... Mary Wiencke

MGHGTF ATTENDANCE LIST, OCTOBER 17, 2023

Attendance details from WebEx registration. Symbols: * denotes MGHGTF Member and † denotes proxy.

#	NAME	ORGANIZATION
1	Mary Wiencke* (Chair)	PGP
2	Clare Breidenich* (Vice Chair)	WPTF
3	Alex Tai*	TEP
4	Alisa Kaseweter*	BPA
5	Brad Parker*	Liberty
6	Charlie Inmant† (proxy for Ann Rendahl)	WA UTC
7	Letha Tawney*	OR PUC
8	Gabriel Aguilera*	NM PRC
9	Ian Hunter*	Snohomish PUD
10	Janet Jaspers*	Chelan PUD
11	Jeff Spires*	Powerex
12	Jessica Zahnow*	PSE
13	John Hammond*	ID PUC
14	Kara Kolkmant† (proxy for Mike Robinson)	WY PSC
15	Kyle Frankiewich*	Tacoma
16	Laura Trolese*	TEA
17	Lauren McCloy*	NW Energy
18	Lindsey Schlekeway*	NV Energy
19	Lisa Tiffin*	Tri-State
20	Michael Robinson*	WY PSC
21	Nick Myers*	AZCC
22	Olivia Dawson-Olson† (proxy for Lurne Quillian)	Xcel
23	Omayya Ahmad*	APS
24	Richard Seide*	Grid Strategies
25	Sydney Welter*	WRA
26	Kim O'Guinn* (Staff Secretary)	SPP
27	Russell Carey* (Secretary Assistant)	SPP
28	Adam Cornelius	Snohomish PUD
29	Agnes Lut	SRP
30	Alexandra Rozen	CO PUC
31	Alison Gill	TEA
32	Allison Hirsch	APS
33	Amanda Hasty	AZCC
34	Austin Scharff	WA Commerce
35	Ben Fitch-Fleischmann	Interwest
36	Bill Drumheller	WA ECY
37	Bonnie Lamond	WIEB
38	Britney Morgan	APS
39	Call-in User 1	
40	Call-in User 2	
41	Calvin Dacus	TEP
42	Cameron Reed	PSE
43	Carrie Simpson	SPP
44	Cat Whitten	PSE
45	Christine Dillard	SPP
46	Christine Monahan	SRP
47	Courtney Olive	BPA

48	Dan Williams	TEA
49	David Boyd	AESL Consulting
50	David Rubin	NV Energy
51	debra malin	BPA
52	Derek Russell	Powerex
53	Doug Howe	Western Climate PUC
54	Drew McGilvray	SPP
55	Edward Garvey	AESL Consulting
56	Elizabeth Elbel	OR DEQ
57	Eric Blank	CO PUC
58	Eugene Mauk	JKE Consulting
59	Gary Hoffman	WAPA
60	Gia Anguiano	WIEB
61	Henry Campbell	SRP
62	Ian Wren	SPP
63	James Lester	CO Energy Office
64	Jerret Fischer	SRP
65	Jerry Stone	SPP
66	Jillian Janik	SPP
67	Joe Taylor	Xcel
68	John Victorino	Idaho Power
69	Jonah Cabral	PGN
70	Jonathan Neill	Powerex
71	Kate Brouns	Renewable NW
72	Kevin Dodson	Idaho Power
73	Kristin Watt	SRP
74	Kristina Rohe	BPA
75	Lauren Tenney Denison	Portland PPC
76	Li Zhou	Utilicast
77	Libby Kirby	BPA
78	Lorraine Piovesan	Powerex
79	Magdalena Johnson	SRP
80	Marcie Martin	SRP
81	Margo Thompson	Basin Electric
82	Mark Holman	Powerex
83	Michael Clark	AZCC
84	Nadia Wer	Pacificorp
85	Nikkole Hughes	PGP
86	Rachel Hildebrand Kane	SPP
87	Raleigh Mohr	SPP
88	Rob Gosselin	Powerex
89	Sara Eaton	BPA
90	SPP Communications	SPP
91	Stefanie Johnson	Seattle City Light
92	Stephen Goodson	ID PUC
93	Todd Miller	BPA
94	Todd Reese	Idaho Power
95	Yasser Bahbaz	SPP

OCT. 24 EMAIL FROM ERIC BLANK, WITH ATTACHED WORD DOCUMENT

From: Blank - DORA, Eric <eric.blank@state.co.us>
Sent: Tuesday, October 24, 2023 5:43 AM CT
Subject: State Regulator Concerns -- M+ GHG Task Force Tariff

Mary -- I just wanted to share w/ you a list of state regulator concerns w/ the current GHG conceptual design and tariff pending before the M+ GHG Task Force later today. These potential rate impact and other concerns are shared by state regulators in CO, NV, NM, OR, and WA. In addition to these states, I believe that there are also a number of other regulators (and utilities) that would generally support the need to have many of these concerns addressed in a timely way. Commissioner Aguilera from NM will be prepared to more officially present this list at the meeting today. I greatly appreciate your help getting a little additional time before the final task force vote and hope these comments prove productive as this conversation moves forward.

Eric

CONTENT OF WORD DOCUMENT ATTACHED TO OCT. 24 EMAIL FROM ERIC BLANK

State Regulator GHG Task Force Issues List

These comments are provided to express the concerns of a number of state utility regulators involved in the Markets+ GHG Task Force.

I. Background

The Markets+ GHG Task Force has been devoted almost entirely to discussing the mechanics of incorporating Washington's Cap-and-Invest program into Markets+. The fundamental problem to be solved is how a resource outside of Washington can be dispatched into Markets+ and include its GHG compliance cost in its bid if the resource were deemed to serve Washington load, but not include the GHG compliance cost in the bid if the resource is not deemed to serve Washington load. The Task Force initially approached this fundamental problem in a simple design called the Zonal method. However, over the past year, the design became much more complicated as additional features and requirements were added that were not originally proposed in the Zonal method. Several of these additional features have caused concern to a number of GHG Task Force members. All the concerns we discuss in this memorandum could negatively affect costs imposed on consumers.

Once the conceptual design was narrowly approved, the GHG Task Force turned to drafting tariff language that accurately describes that design. As a result, there has not been time allocated to address these issues, even as affected members have sought to raise them. Additionally, the parties remain concerned that new elements were added to the conceptual design very late in the process and demonstrated a lack of common understanding among GHG Task Force members about how the conceptual design would operate in practice.

While we believe there are solutions to these issues, they remain unresolved as of today.

II. Type 1 Resource

The current design defines a “Type 1 Resource” as a resource outside of Washington which has an obligation to serve load inside Washington. A Type 1 resource could be wholly or partially owned by a Washington utility which is located outside the state, or it could be owned by an Independent Power Producer that has a power purchase agreement with a Washington utility. Though the tariff does not explicitly require transmission rights exist, it is presumed that such rights would exist because of the legal or regulatory obligation to serve a load in Washington.

The definition of Type 1 further delineates a Type 1a and Type 1b resource. The current design requires that if the Type 1a resource dispatches at all, then all its dispatch will be designated to serving Washington – what we might call an “all or nothing” constraint. This constraint could cause non-economic results in the market, for if Washington load does not require all the supply to meet load, then one of two things could happen: first, the full offer of the Type 1 resource would not be dispatched and the surplus (offer minus dispatch) could not be utilized to serve load in the non-GHG zone, even if it was less expensive to do so; or, second, the Type 1 resource may still be fully dispatched and the excess generation in Washington would be exported to the non-GHG zone. In this latter case, the non-GHG Zone would have to dispatch down resources to maintain power balance which may cause prices to increase outside of Washington or even cause a non-economic dispatch requiring uplift. Either case would lead to non-economic dispatch results in the GHG zone or the non-GHG zone or both.

Because of this “all or nothing” constraint on Type 1a, we believe the Type 1a designation is a problematic concept at its core. A straightforward solution would be to eliminate the Type 1a resource distinction and redefine Type 1 to be only what Type 1b is currently defined to be, that is, a resource with obligation to serve the GHG zone but which can wholly or partially serve either the GHG zone with a GHG adder or the non-GHG zone without a GHG adder, whichever produces the lowest overall production cost. If there is a contractual or legal reason that the Type 1 resource must have its generation designated to the GHG zone load, that could be accommodated through self-scheduling.

III. Type 2 Resource Deliverability

A Type 2 resource is a resource outside of Washington that does not have a legal or contractual obligation to a Washington load but chooses to offer its output to be dispatched to serve Washington, with a compliance cost as part of the bid, or to be dispatched to serve load outside of Washington, with no compliance cost in the bid. The dispatch algorithm would make the decision on which load is served based on minimizing total production cost to the market. However, the actual physical deliverability of Type 2 resources has not been adequately addressed. A possible solution has been proposed by Xcel Energy that the amount of Type 2 attribution to Washington be constrained by actual transmission limitations that exist between the resource and Washington state (e.g., the power transfer distribution factor). While this may not be the only solution, no discussion on this issue has been taken up in the GHG Task Force. It illustrates that there should be more discussion on this issue and collaboration between task forces and working groups on common issues, such as the GHG Task Force, the Congestion Rent TF and Operations and Reliability Working Group.

IV. *Type 2 Resource Pricing*

The Task Force spent a long period of time discussing how Type 2 resources would be dispatched. The fundamental issue involves leakage and which method of dispatch for Type 2 resources would *adequately* minimize leakage. Unfortunately, there is no quantification of what is meant by *adequate*.

Ultimately two methodologies were proposed, the Floating methodology and the Enhanced Floating methodology. Proponents of each methodology are sharply divided in their views of which methodology should be adopted. The Enhanced Floating methodology won a vote of the Task Force by a narrow margin (11-9).

The division comes down to this: the Enhanced Floating methodology will produce prices in Washington which are on average higher than prices produced by the Floating Methodology. Supporters of the Enhanced Floating methodology argue that on average this method would reduce the potential of leakage by some amount. However, neither the amount of average price increase nor average leakage decrease is supported by any analysis done by SPP or the GHG Task Force. It is unclear how leakage is even to be calculated and measured. Moreover, the Washington Department of Ecology has not made any rule or pronouncement on how or at what cost leakage in electricity markets should be mitigated. It is hoped that the Department of Ecology will address this issue sometime in the next one to two years.

In the absence of guidance from the Department of Ecology, we believe it is premature and would be difficult at this time to endorse the Enhanced Floating methodology which would raise prices to consumers in Washington and may potentially do so outside of Washington. Leakage is an issue that needs to be addressed. However, the Enhanced Floating proposal, while creative, is premature given the lack of guidance from the Department of Ecology at this time, and lack of data that can support a cost-benefit analysis of this issue including to states outside Washington. Going forward with the Enhanced Floating methodology at this time also risks a protracted fight at the FERC.

One way forward is to adopt the Floating method but in the Transmittal Letter acknowledge that leakage mitigation is an open issue which the Task Force will continue to analyze as the Department of Ecology develops its rules and may result in future amendments to the methodology. More broadly, concerns exist that so much of the Task Force time has been spent on dealing with leakage surrounding the Washington program that core concerns involving ratepayer costs have been an afterthought at best, ignored at worst.

V. *Non-Priced GHG Reduction Programs Inclusion in Markets+*

Several states in the west have non-priced GHG reduction programs which do not establish a cost for a ton of CO₂, but rather mandate that their utilities meet a certain reduction in, or level of, CO₂ in generation to meet load which reduces over time. The states with such programs are, Colorado, Nevada, New Mexico, Oregon, and Washington. Some of these programs require the utility to not only measure the amount of CO₂ they are emitting, importing, and exporting but also to apply control over the level of CO₂ being imported or exported through market dispatch. The GHG Task Force has not addressed these requirements but made vague statements to the effect that it might do so in the future. SPP has offered their opinion that FERC will not accept any dispatch control over emissions but admits the issue has not been addressed by FERC.

This is an important issue for utilities subject to these non-priced programs. It may be difficult for some potential market participants to commit time and funding to Phase 2 of Markets+ development without assurances that the ultimate market design could accommodate, in some fashion, these programs.

To address this concern, the tariff filing does not need to be delayed, but developing solutions for these programs does require a commitment from SPP and the Task Force that it will take up working on measurement and market design soon. This could involve including language in the tariff filing transmittal letter which commits to get a common understanding and mutually acceptable path forward prior to having utilities in the Non-Priced GHG Reduction states commit to the Phase II funding.

RESULTS OF THE ROLL CALL VOTE FROM THE OCT. 24, 2023, MGHGTF MEETING

Motion: *Approve Greenhouse Gas Programs tariff language as presented and revised on Oct. 24, 2023: for consideration by the Markets+ Design Working Group, and contingent on SPP including language in the FERC transmittal letter addressing work in progress: to explore market design elements for GHG Reduction Programs and their requirements for dispatch, tracking and reporting to meet their obligations and goals, development of a Data Reporting Criteria governing document that asserts and governs SPP's role in data reporting to support states' and utilities' efforts to meet their states' compliance obligations. And for SPP staff to conduct analysis, at the direction of the MGHGTF, on the impacts of market design options, to be provided to the MGHGTF, MDWG and MPEC.*

MGHGTF Roster Member	Org	Sector	Vote
Mary Wiencke	PGP	IND	YES
Clare Breidenich	WPTF	IND	YES
Laura Trolese	TEA	IND	NO
Lauren McCloy	NWEC	IND	NO
Richard Seide	Grid Strategies	IND	ABSTAIN
Sydney Welter	WRA	IND	NO
Alex Tai	TEP	IOU	NO
Brad Parker	Liberty	IOU	NO
Jessica Zahnow	PSE	IOU	NO
Olivia Dawson-Olsen, proxy for Lauren Quillian	Xcel	IOU	NO
Lindsey Schlekeway	NVE	IOU	NO
Omayya Ahmad	APS	IOU	NO
Alisa Kaseweter	BPA	PUB	YES
Ian Hunter	Snohomish	PUB	YES
Jeff Spires	Powerex	PUB	YES
Kyle Frankiewicz	Tacoma	PUB	YES
Lisa Tiffin	Tri-State	PUB	NO
Janet Jaspers	Chelan	PUB	YES
Charlie Inman, proxy for Ann Rendahl	WA UTC	State	NO
Gabriel Aguilera	NM PRC	State	NO
John Hammond	ID PUC	State	NO
Letha Tawney	OR PSC	State	NO
Kara Kolkman, proxy for Mike Robinson	WY PSC	State	NO
Nick Myers	AZCC	State	NO

Vote	Count	Pct
YES	7	30%
NO	16	70%
ABSTAIN	1	N/A

THE FOLLOWING DOCUMENTS ARE STATEMENTS SUBMITTED BY MEMBERS OF THE MARKETS+ GREENHOUSE GAS TASK FORCE, TO ACCOMPANY THEIR VOTES FROM THE OCT. 24, 2023, MEETING OF THE MGHGTF, AND BE INCLUDED IN THE MINUTES FROM THAT MEETING.

COMMISSIONERS

Jim O'Connor - Chairman
Lea Márquez Peterson
Anna Tovar
Kevin Thompson
Nick Myers



NICK MYERS
Commissioner

ARIZONA CORPORATION COMMISSION

October 25, 2023

Re: Markets+ Greenhouse Gas Task Force October 24, 2023, vote on tariff language

Markets+ Design Working Group:

SPP staff asked members of the Markets+ Greenhouse Gas Task Force to provide written comments explaining their vote on the draft tariff language that took place on October 24, 2023. Although I understand the importance of keeping the Markets+ process on schedule, I ultimately could not vote in favor of the tariff language. Several task force members have expressed their concerns with Type 1A Resource under 2.4.1. I generally agree with these concerns. If Type 1A were removed, I could support the tariff language.

In addition, I would like to express my support for the tariff's use of the Threshold Enhanced Floating Surplus methodology. In our discussions, this methodology was developed and adopted in the GHG Conceptual Design Framework as a compromise between the GHG Threshold Method and the Floating Surplus Method. The GHG Threshold Method reduces leakage but significantly increases costs for states with GHG policies. In contrast, the Floating Surplus Method spreads out the costs to all market participants (by shifting cost from GHG states to non-GHG states), but creates the most leakage, thereby undermining the spirit of GHG policies. The Threshold Enhanced Floating Surplus methodology is therefore a reasonable compromise that seeks to limit leakage while keeping most of the additional GHG-related costs with the states that have chosen to implement GHG policies. I could not support the tariff language if it adopted the Floating Surplus Method.

However, SPP staff is currently conducting additional analysis under the three surplus optimization methods. It would be prudent to have this data from SPP before having to vote on the tariff language again as it might impact my position on these issues.

Thank you for this opportunity to provide my vote explanation.

Sincerely,

A handwritten signature in black ink, appearing to be "Nick Myers", written in a cursive style.

Commissioner Nick Myers

First, BPA greatly appreciates the efforts of SPP staff, and the Chair and Vice Chair in leading the task force. The task force has made significant progress in the time that was allotted for this work in the overall schedule. BPA's "yes" vote on Tuesday reflects that we believe the tariff language and conceptual design represent the best compromise that could be obtained in the timeframe allotted to the task force. Should more time be allotted, BPA is eager to continue to work toward greater consensus on a solution.

That said, based on BPA's understanding of the conceptual design and how that design would work with state programs, BPA believes the conceptual design and tariff language do represent a balanced approach that reflects compromises made throughout this process. We share the following thoughts on why below.

Type 1A

While BPA has not strongly advocated for Type 1A, we do see potential use of it. BPA sells preference power under long term (20 year) contracts to more than 60 utilities in the state of WA, with total sales to WA amounting to nearly 50% of the power used in the state. We also have many generating resources physically located in the state of WA, but per WA's CCA, our system of resources is considered outside of the state. BPA believes the market design and state reporting should honor those contractual arrangements in attributing some of the FCRPS to WA load (and not attributing the part contracted to WA to other loads). BPA believes Type 1A is one potential tool for accomplishing that. Type 1b and Type 2 would not provide for the ability to ensure any portion of output is attributed to WA.

We take seriously the MMU's concerns over price distortion. BPA did not hear those concerns so clearly in the comments made by the MMU a few weeks ago, and, assuming the task force has more time, we would like to hear more from the MMU on those concerns and discuss what limitations could be put on Type 1A to address the concerns.

For BPA, the potential use of Type 1A is focused on being able to attribute the federal system to our WA preference customers that have contractually committed to buying power from us; it is not about revenue. However, we have heard others raise concerns that a Type 1A resource that is hydro could be displaced by cheaper resources and hold back water for times when prices are higher, and we want to address that. Holding back water for higher priced periods is standard industry practice for hydro operators and provides overall societal benefits by conserving hydro fuel (water) for other purposes and times when it is most needed (i.e. environmental purposes or when other generation is in short supply). Indeed, in the overall picture, this standard practice supports lower cost decarbonization and achievement of state GHG reduction goals. Generally, when prices are low it is because VERS are running and fuel costs are low. Hydro can then save water for times when VERS are not running. Then in those times when VERS are not running and prices are generally higher, hydro would likely displace some higher cost fossil fuels, thus both achieving cost savings and reducing emissions.

Threshold Enhanced Floating Surplus

BPA prefers this approach over floating surplus for two reasons:

1) We believe it reduces leakage, which is an important component of state carbon pricing programs

As compared to the floating surplus approach, BPA believes that the threshold enhanced floating surplus approach will do a better job of reducing secondary dispatch and thus addressing emissions leakage and

overall decreasing emissions. We understand there was some analysis done that counters that belief, but data and assumptions have not been shared in a way that allows for discussion and confidence in that analysis. We look forward to the results of SPP's analysis and ability to discuss scenarios and assumptions with the task force in an open way. If SPP's analysis reinforces the other analysis, we will certainly revisit our position on this.

We recognize that there is uncertainty around how Ecology will address leakage in its program rules. However, the WA legislature has already stated that Ecology's program must be designed to avoid leakage. Further, if WA pursues linkage with California, Ecology has shared that leakage will likely need to be addressed appropriately in the linkage process. Given Ecology's rulemaking is not slated to conclude until summer 2024, we are not likely to have more specific direction from Ecology until that time. However, CARB did recently share some potential changes to the EIM outstanding emissions calculation. As BPA understands CARB's proposal, it indicates that CARB identifies concerns with secondary dispatch and leakage where amounts from a resource that are below the resource's baseline are attributed to the state. In those instances, a compliance obligation for outstanding emissions would continue to apply to California load. Finally, the threshold enhanced approach affords flexibility to Ecology to address leakage through its program rules more or less stringently as it sees fit. Ecology could choose to more broadly define what qualifies as surplus in its rules and take a less stringent approach on leakage, or more narrowly define surplus and take a more stringent approach. BPA believes this feature appropriately gives a state some control over how it would like to address leakage.

We do not doubt that the threshold enhanced approach results in higher *market* costs for WA load. Measures to reduce emissions leakage are likely to place bounds on what resources qualify for attribution to a state and thus likely lead to higher costs at times. These costs are largely driven by the state program and emission reduction measures, not the market design. And if Ecology decides to address leakage through additional compliance obligations (e.g., an outstanding emissions calculation), that also comes at a cost to WA consumers, which should not be ignored. If WA load is paying a premium through the market for a clean resource being attributed to load, but then utilities also need to relinquish allowances due to leakage for that same resource amount, load is ultimately paying twice for emission reduction efforts. This is the result of the current EIM outstanding emissions calculation in CA. The overall lowest cost solution for WA load should be a well-design market solution that minimizes leakage by choosing contracted for and surplus, least-cost clean resources, and with no need for application of an outstanding leakage compliance obligation on the part of Ecology.

2) It provides BPA with a tool for managing attribution to WA and thus enabling non-WA preference customers to claim power and emissions from the FCRPS for their state reporting purposes

BPA serves about 30% of the load in the state of OR. These sales are to public utilities in the state that are not covered under OR's clean energy standard (HB 2021) but are required to report GHG emissions and, for their own individual utility reasons, are concerned about how a DAM will impact their ability to report and claim the low carbon attributes of the FCRPS. BPA sees potential for an out-of-market solution that can be developed for some of these mandatory GHG reporting programs that would rely on contractual claims on power for reporting. However, such claims could be at risk if the power was attributed to another state like WA for program compliance there.

The enhanced threshold approach better enables BPA to establish boundaries on the attribution of the federal system. The threshold approach would allow BPA to set a baseline (threshold) for its load

obligations. The strict threshold approach as originally proposed would have honored that baseline, but BPA understands that approach creates inefficiencies and uplift in the market. With the threshold enhanced approach, by the first run estimating what that attribution would be, the results of the actual attribution will be closer to honoring that threshold. Thus, the market would be less likely to attribute surplus to WA when the FCRPS wasn't dispatched in quantities great enough to first meet BPA's load obligations, including Type 1 amounts for WA plus other preference customer load outside of WA such as BPA's customers in OR.

On the other hand, the floating surplus approach is much more likely to result in first attributing to WA any FCRPS that is dispatched, including Type 1 and Type 2. This could have significant impacts on BPA's customers in OR being able to claim the FCRPS for reporting purposes due to it already being attributed to another state. While there are potential bidding strategies BPA could undertake to achieve similar results under the floating surplus approach, it would result in a less efficient outcome than if the market solved for it. And it could lead to BPA being overly conservative in Type 2 amounts that we would be willing to have deemed to WA, thus limiting access of WA consumers to a clean, low-cost resource.

NV Energy voted no on the proposed GHG draft tariff language for the following reasons:

1. NV Energy does not support the proposed market design for Type 1A. NV Energy will not support a market design that includes a carve out to allow contracted supply that is located outside the GHG pricing program to be able to economically bid but only be dispatched to serve load inside the GHG pricing program. In the proposed Type 1A design, the contracted resource would only be dispatched to serve the GHG pricing program load. Others have argued that this could displace other generators located inside the GHG zone in order for those resources to export and serve load outside the zone. However, this proposal has an inappropriate impact to market prices outside the GHG zone. When the generators located inside the GHG zone are displaced and become available to the market at a marginal price the GHG price is included in the entire bid to serve load outside the zone. Essentially, this is allowing the contracted supply that is located outside the GHG zone to include their GHG costs in the Markets+ footprint. This energy should only be self-scheduled or a price taker if there is no ability for the supply to serve load outside the GHG zone so that the resource has no impact on the timing of when a resource located inside the GHG zone becomes marginal.
2. NV Energy cannot support the hybrid application method called threshold enhanced floating surplus. While we appreciate SPP's best effort at a compromise, we cannot support this level of complexity without additional time to test the solution to determine if issues would arise that would harm market awards, the market performance, and ultimately benefits to customers. SPP has indicated that it would provide analysis comparing the floating surplus methodology to the enhanced floating surplus methodology. While NV Energy is very supportive of this effort, it cannot guarantee that the results of analysis will sway our vote. NV Energy believes this solution is more complicated than the floating surplus method that has been approved by FERC because it adds another layer of complexity with the addition of a threshold. Furthermore, NV Energy is concerned that the proposed enhanced floating surplus methodology may go beyond the final ruling from the WA Department of Ecology since this rule has not been made. Therefore, NV Energy recommends that the Task Force move forward with the FERC approved floating surplus methodology for the initial tariff development of Markets + and reconvene on this issue following a final ruling from the WA Department of Ecology.

Powerex

Type 1a

Forward contracting for physical supply will continue in a Markets+ environment, including by LSEs in a GHG pricing area that may contract for supply from external clean resources. To ensure that participating in Markets+ does not undermine the ability of an LSE to receive (and respective sellers to deliver) contracted external clean supply, Powerex believes it is essential to ensure that the output from such a resource is assigned to the GHG pricing zone, and that the specific LSE ultimately receives any associated GHG payments through Markets+.

Powerex believes many of the concerns expressed about Type 1a reflect a misunderstanding of the intent of the functionality. For example, Type 1a would not prevent the resource from being dispatched as part of the footprint's aggregate supply that meets load elsewhere in the footprint (which would occur through a specified source import into the GHG zone and a transfer of generic energy out of the GHG zone into the external area). Furthermore, the Type 1a resource would only be dispatched when it is economic to do so because it is the lowest-cost option. The purpose of Type 1a is only to ensure that to the extent the forward contracted resource is dispatched, it is assigned to the GHG zone (and ultimately to the purchasing LSE) from a GHG accounting perspective.

Without Type 1a, Powerex believes that market participants with forward contracts to deliver or receive external clean supply delivered to a GHG zone will likely seek to carve out their forward contracted resources and transmission from Markets+ to ensure their contractual commitments are met. Powerex believes this is unnecessary and can be avoided through incorporating Type 1a functionality into Markets+.

Type 2

A key objective of the GHG Task Force is to develop an approach for Markets+ to enable specified-source imports to be delivered to a GHG zone. As part of that objective, the Service Offering included a clearly stated commitment to "evaluate several proposals to minimize MW re-designation of energy imported to a GHG pricing zone."

To date, the task force evaluated three options: Floating, Threshold, and Enhanced. While all three approaches would enable the algorithm to preferentially select the cleanest external resources for assignment to the GHG zone, the key distinction between approaches is what validation, if any, would be applied when determining which external resources are eligible for attribution.

Powerex initially supported the Threshold approach because it would apply the strongest validation that external clean resources assigned to the GHG zone are actually increasing their production beyond what is needed to meet the market participant's load outside the GHG zone. In Powerex's view this is the most intuitive and direct requirement: resources claimed to be the source of an import should actually be dispatched to support that import.

The Floating approach, on the other hand, would apply no validation whatsoever of whether a given external clean resource could credibly be the source of the import. The floating approach would allow coal and gas to be dispatched and labelled as hydro for GHG purposes, even when the hydro output is clearly being used to meet load in the external area, and even when incremental production from the

hydro resource would not be economic or deliverable to the GHG zone. These inaccurate GHG attributions have been demonstrated to occur systemically in the WEIM, producing inefficient dispatches, inaccurate price signals and leakage. This approach therefore completely fails in the objective of addressing (let alone minimizing) redesignation. Even CAISO proposes to move beyond the pure floating approach by proposing additional limits for GHG attribution in EDAM (i.e., by applying a BAA level export requirement for deeming).

Importantly, the Floating approach also results in an unworkable double-counting issue for entities like Powerex and others that have their own environmental objectives in regions outside of GHG pricing zones. As demonstrated in WEIM, the floating approach enables clean resources already being used to meet load in the source jurisdiction (and being counted toward environmental objectives in those source areas) to be simultaneously attributed to the GHG zone. This issue was a major contributing factor in Powerex's choice to no longer participate in WEIM with its surplus clean supply and Powerex would encounter the same problem if the Floating approach was adopted in Markets+.

For these reasons, Powerex voted to support the Enhanced methodology as a reasonable compromise solution. While it does not guarantee that a resource will be incrementally dispatched above the output needed to serve external load, the two-step approach at least ensures that the external resource *could have* been dispatched economically and delivered to the GHG zone. While imperfect, Powerex supports this approach as a workable compromise that strikes a balance between maximizing the quantity of legitimate clean supply that is made available to the GHG zone, while still applying an assessment of whether a resource being assigned as a specified source import to the GHG zone could at least be plausibly claimed as a potential source of that import.



PGP Markets+ Greenhouse Gas Task Vote Position Statement

October 25, 2023

The Public Generating Pool (PGP) supported the tariff language voted upon at the October 24, 2023 Greenhouse Gas Task Force meeting because it represents a reasonable path forward in light of significant regulatory uncertainty as well as compromises among task force members. PGP's specific position on design elements is articulated below:

Type 1a Specified Source Imports

- Task force members raised concerns regarding the ability to continue to honor the attribution of non-emitting resources to reflect forward contracts in Markets+. Those members articulated a concern with respect to honoring these contracts that had to do with always ensuring that non-emitting resources are attributed to the load to which it is contracted. These members also articulated that full participation in the market would be challenged if these contracts were not honored and that failure to accommodate could result in significant carve-outs.
- There is uncertainty and differences of opinion with respect to how forward contracts will be treated generally in Markets+ and whether those contracts should or will be re-negotiated. There is also uncertainty with respect to the future of greenhouse gas accounting generally in the West and how load-serving entities will ensure that the non-emitting resources for which they own or have contracted will be attributed to them in the context of organized markets.
- Other task force members raise concerns that exclusive attribution of certain non-emitting resources to GHG zone loads will create distortions and uneconomic outcomes in the market.
- PGP's perspective is that Type 1a Specified Source Imports are not specifically a needed element of the Washington Cap-and-Invest program but that the concerns raised on both sides of the debate have merit. Further, PGP's perspective is that the bigger picture implications of how forward contracts are treated in Markets+ generally and how greenhouse gas accounting will evolve are not knowable or solvable within the current Markets+ timeframe.
- Therefore, PGP believes that adopting the Type 1a Specified Source design element is appropriate at this time as a compromise element and because PGP shares a concern with respect to ensuring that contracted-for non-emitting resources may ultimately be attributed to the load that contracted for that resource.
- PGP also believes that more time to allow for further analysis and discussion of the mechanics of this design element and potential side-boards to mitigate potential negative unintended consequences could be fruitful in terms of gaining more consensus among the task force members.

Identification of Surplus

- PGP supports the 'resource operator plus merit order' approach to the identification of surplus because this provides important flexibility to market participants to determine quantities of energy available to be attributed to the GHG zone.

- This approach also leaves flexibility to update/accommodate future changes in Washington Department of Ecology rules as needed.

Optimization Method

- PGP supports the Enhanced Floating Surplus optimization method as a clear compromise between the initially proposed GHG Threshold and Floating Surplus methods. This approach is also reasonable given the uncertainty with respect to Washington Department of Ecology implementation of its program in the context of organized markets.
- PGP also finds that the Enhanced Floating Surplus method strikes a balance between the interests of Washington load to minimize costs by creating greater quantities of available surplus and the interests of external supply in managing the quantities of non-emitting resources that may be attributed to the GHG zone. PGP does not agree that the decision on the optimization method should consider only costs to Washington load but should balance the interests of the entire footprint.
- PGP believes that additional modeling and analysis on the optimization method has the potential to be fruitful in terms of driving additional consensus among the group.
- Given the unlikelihood of greater clarity from the Washington Department of Ecology on how to balance the interests of reducing emissions leakage and costs to Washington load, PGP does not believe that further discussion regarding the best approach to manage this uncertainty is likely to be constructive.

Deliverability Issues

- An issue was raised very late in the GHG task force's allotted schedule regarding the deliverability of attributed specified source imports. There was insufficient time given the schedule for the group to have meaningful discussion on this issue.
- PGP's perspective is that the Enhanced Floating Surplus optimization approach inherently addresses many of these concerns because the GHG Threshold run incorporates an optimized (and deliverable) assessment of available surplus that may be attributed to the GHG zone. The Floating Surplus method does not incorporate this deliverability component.
- PGP believes that further time and discussion on this issue is likely to be constructive in terms of driving consensus among the GHG task force members.

To: Chair Mary Wiencke and SPP Staff

From: Public Service Company of Colorado ("PSCo", "Xcel Energy")

Re: 10/24/23 Markets+ GHG Task Force Meeting

While we appreciate all the work and effort from the Task Force and SPP thus far, PSCo voted No on the tariff language at the 10/24 GHG Task Force for the following reasons:

1. SPP is providing an analysis on November 9 or 10 addressing several issues like floating surplus, enhanced floating surplus and the impact on overall market emissions and prices. We believe understanding these issues is important, and the tariff language vote should have been delayed.
2. We would like to see the concerns of our state regulators addressed which we understand were provided in a letter from CO PUC Chairman Blank on Tuesday October 24th. We share many of the concerns raised.
3. We favor elimination of Type 1A surplus. We agree power purchase agreements and contracts should be considered, but energy above what's needed to serve load should be made available to the market for optimization. This is consistent with our understanding of Type 1B.
4. Type 2 resources should have some sort of transmission deliverability assessment if they are selling into a GHG pricing zone. We view this as an issue for the market to address which should not be left up to state regulations which vary significantly.
5. We appreciate the inclusion of a commitment in the transmittal letter for additional work to address the needs of states with GHG regulations and programs without GHG pricing. These needs extend beyond tracking and reporting and must include a market dispatch solution. We would like to start working to resolve this issue now, as it is difficult to understand the tariff without a full knowledge of the rules that will apply to our states and GHG reduction goals.

State Regulator GHG Task Force Issues List

These comments are provided to express the concerns of a number of state utility regulators involved in the Markets+ GHG Task Force.

I. Background

The Markets+ GHG Task Force has been devoted almost entirely to discussing the mechanics of incorporating Washington's Cap-and-Invest program into Markets+. The fundamental problem to be solved is how a resource outside of Washington can be dispatched into Markets+ and include its GHG compliance cost in its bid if the resource were deemed to serve Washington load, but not include the GHG compliance cost in the bid if the resource is not deemed to serve Washington load. The Task Force initially approached this fundamental problem in a simple design called the Zonal method. However, over the past year, the design became much more complicated as additional features and requirements were added that were not originally proposed in the Zonal method. Several of these additional features have caused concern to a number of GHG Task Force members. All the concerns we discuss in this memorandum could negatively affect costs imposed on consumers.

Once the conceptual design was narrowly approved, the GHG Task Force turned to drafting tariff language that accurately describes that design. As a result, there has not been time allocated to address these issues, even as affected members have sought to raise them. Additionally, the parties remain concerned that new elements were added to the conceptual design very late in the process and demonstrated a lack of common understanding among GHG Task Force members about how the conceptual design would operate in practice.

While we believe there are solutions to these issues, they remain unresolved as of today.

II. Type 1 Resource

The current design defines a "Type 1 Resource" as a resource outside of Washington which has an obligation to serve load inside Washington. A Type 1 resource could be wholly or partially owned by a Washington utility which is located outside the state, or it could be owned by an Independent Power Producer that has a power purchase agreement with a Washington utility. Though the tariff does not explicitly require transmission rights exist, it is presumed that such rights would exist because of the legal or regulatory obligation to serve a load in Washington.

The definition of Type 1 further delineates a Type 1a and Type 1b resource. The current design requires that if the Type 1a resource dispatches at all, then all its dispatch will be designated to serving Washington – what we might call an "all or nothing" constraint. This constraint could cause non-economic results in the market, for if Washington load does not require all the supply to meet load, then one of two things could happen: first, the full offer of the Type 1 resource would not be dispatched and the surplus (offer minus dispatch) could not be utilized to serve

load in the non-GHG zone, even if it was less expensive to do so; or, second, the Type 1 resource may still be fully dispatched and the excess generation in Washington would be exported to the non-GHG zone. In this latter case, the non-GHG Zone would have to dispatch down resources to maintain power balance which may cause prices to increase outside of Washington or even cause a non-economic dispatch requiring uplift. Either case would lead to non-economic dispatch results in the GHG zone or the non-GHG zone or both.

Because of this “all or nothing” constraint on Type 1a, we believe the Type 1a designation is a problematic concept at its core. A straightforward solution would be to eliminate the Type 1a resource distinction and redefine Type 1 to be only what Type 1b is currently defined to be, that is, a resource with obligation to serve the GHG zone but which can wholly or partially serve either the GHG zone with a GHG adder or the non-GHG zone without a GHG adder, whichever produces the lowest overall production cost. If there is a contractual or legal reason that the Type 1 resource must have its generation designated to the GHG zone load, that could be accommodated through self-scheduling.

III. Type 2 Resource Deliverability

A Type 2 resource is a resource outside of Washington that does not have a legal or contractual obligation to a Washington load but chooses to offer its output to be dispatched to serve Washington, with a compliance cost as part of the bid, or to be dispatched to serve load outside of Washington, with no compliance cost in the bid. The dispatch algorithm would make the decision on which load is served based on minimizing total production cost to the market. However, the actual physical deliverability of Type 2 resources has not been adequately addressed. A possible solution has been proposed by Xcel Energy that the amount of Type 2 attribution to Washington be constrained by actual transmission limitations that exist between the resource and Washington state (e.g., the power transfer distribution factor). While this may not be the only solution, no discussion on this issue has been taken up in the GHG Task Force. It illustrates that there should be more discussion on this issue and collaboration between task forces and working groups on common issues, such as the GHG Task Force, the Congestion Rent TF and Operations and Reliability Working Group.

IV. Type 2 Resource Pricing

The Task Force spent a long period of time discussing how Type 2 resources would be dispatched. The fundamental issue involves leakage and which method of dispatch for Type 2 resources would *adequately* minimize leakage. Unfortunately, there is no quantification of what is meant by *adequate*.

Ultimately two methodologies were proposed, the Floating methodology and the Enhanced Floating methodology. Proponents of each methodology are sharply divided in their views of which methodology should be adopted. The Enhanced Floating methodology won a vote of the Task Force by a narrow margin (11-9).

The division comes down to this: the Enhanced Floating methodology will produce prices in Washington which are on average higher than prices produced by the Floating Methodology. Supporters of the Enhanced Floating methodology argue that on average this method would reduce the potential of leakage by some amount. However, neither the amount of average price increase nor average leakage decrease is supported by any analysis done by SPP or the GHG Task Force. It is unclear how leakage is even to be calculated and measured. Moreover, the Washington Department of Ecology has not made any rule or pronouncement on how or at what cost leakage in electricity markets should be mitigated. It is hoped that the Department of Ecology will address this issue sometime in the next one to two years.

In the absence of guidance from the Department of Ecology, we believe it is premature and would be difficult at this time to endorse the Enhanced Floating methodology which would raise prices to consumers in Washington and may potentially do so outside of Washington. Leakage is an issue that needs to be addressed. However, the Enhanced Floating proposal, while creative, is premature given the lack of guidance from the Department of Ecology at this time, and lack of data that can support a cost-benefit analysis of this issue including to states outside Washington. Going forward with the Enhanced Floating methodology at this time also risks a protracted fight at the FERC.

One way forward is to adopt the Floating method but in the Transmittal Letter acknowledge that leakage mitigation is an open issue which the Task Force will continue to analyze as the Department of Ecology develops its rules and may result in future amendments to the methodology. More broadly, concerns exist that so much of the Task Force time has been spent on dealing with leakage surrounding the Washington program that core concerns involving ratepayer costs have been an afterthought at best, ignored at worst.

V. *Non-Priced GHG Reduction Programs Inclusion in Markets+*

Several states in the west have non-priced GHG reduction programs which do not establish a cost for a ton of CO₂, but rather mandate that their utilities meet a certain reduction in, or level of, CO₂ in generation to meet load which reduces over time. The states with such programs are, Colorado, Nevada, New Mexico, Oregon, and Washington. Some of these programs require the utility to not only measure the amount of CO₂ they are emitting, importing, and exporting but also to apply control over the level of CO₂ being imported or exported through market dispatch. The GHG Task Force has not addressed these requirements but made vague statements to the effect that it might do so in the future. SPP has offered their opinion that FERC will not accept any dispatch control over emissions but admits the issue has not been addressed by FERC.

This is an important issue for utilities subject to these non-priced programs. It may be difficult for some potential market participants to commit time and funding to Phase 2 of Markets+ development without assurances that the ultimate market design could accommodate, in some fashion, these programs.

To address this concern, the tariff filing does not need to be delayed, but developing solutions for these programs does require a commitment from SPP and the Task Force that it will take up working on measurement and market design soon. This could involve including language in the tariff filing transmittal letter which commits to get a common understanding and mutually acceptable path forward prior to having utilities in the Non-Priced GHG Reduction states commit to the Phase II funding.

Tri-State Generation & Transmission Association, Inc. (Tri-State) votes “no” on approval of the GHG Task Force tariff language for Markets+ as proposed on October 24, 2023. Tri-State appreciates the significant efforts of SPP in making progress on GHG tariff language for states with GHG pricing programs; however, little focus has yet been placed on non-pricing program states’ need for GHG compliance through Markets+ dispatch and reporting mechanisms. Pricing program approaches also would benefit from further Task Force discussion prior to approval of tariff language.

Tri-State is generally supportive of the “State Regulator GHG Task Force Issues List” provided by CO, NV, NM, OR, and WA state regulators to SPP and the Task Force on October 24, 2023. Tri-State encourages and supports further Task Force discussion on the impact of Type 1a resources and deliverability boundaries for Type 2 resources along with analysis and further review of the floating vs enhanced floating methodologies. The Task Force needs clarity regarding the financial impact of these items to the market. Additionally, focusing only on GHG pricing programs without considering the impacts of the addition of GHG non-pricing programs is likely to result in a need for modifications to tariff language at a later point in time.

It is important to Tri-State and its Member Systems that Markets+ addresses greenhouse gas reduction requirements in a manner that will allow us to meet our state regulatory requirements in the most cost-effective manner. Additional time is necessary for the Task Force to achieve reasonable GHG tariff language that sufficiently addresses both GHG pricing and non-pricing programs.

Washington State Statement on Tariff Proposal
Markets+ GHG Task Force Meeting
October 24, 2023

The Washington Utilities and Transportation Commission, Washington Department of Commerce, and Washington Department of Ecology (Washington State Agencies) have fully participated in the SPP Markets+ Greenhouse Gas Task Force (MGHGTF) since its formation. The Washington State Agencies have greatly appreciated the efforts by SPP and the MGHGTF members to discuss and develop tariff language that would allow Washington State utilities and market participants to fully participate in Markets+ and comply with the legal requirements of the Climate Commitment Act, Washington's cap and invest law, and the Clean Energy Transformation Act, or CETA.

The Washington State Agencies have provided a number of proposed edits to the draft tariff for clarity and to allow for compliance with the CCA and CETA, but continue to have significant concerns with provisions of the conceptual design and tariff language. The specific concerns of the Washington State Agencies are set forth in the Joint State Comments submitted to the MGHGTF for the October 24 meeting.

In addition to those comments, the Washington Utilities and Transportation Commission and Washington Department of Commerce have concerns about the effect of the tariff proposal, specifically the means of optimizing Type 2 resources in Section 3.4 of the proposed tariff language, referred to as the Enhanced Floating Surplus Method in the task force discussions. This method of optimizing the surplus energy in the market clearing process creates significant concerns about its impact on costs to customers in Washington state without a clear understanding of the benefit Washington customers would gain from reducing leakage. This method will increase customer costs above the additional cost imposed by the GHG Adder, which is intended to reflect the cost of emissions due to imports into Washington.

However, neither SPP nor the MGHGTF participants can identify the magnitude of the increased costs to customers nor the amount of leakage that would be reduced. While the Washington State Agencies fully support the need to address leakage, we note that the Department of Ecology is in the process of developing rules governing market participation, and has not yet addressed leakage, but is actively taking comment at this time on how and when to do so. Given these uncertainties, the Washington Utilities and Transportation Commission and Washington Department of Commerce cannot support a proposal that increases customer costs above the GHG Adder without any sense of the magnitude of these additional costs or the benefits from reducing leakage.

For these reasons, the Washington State Agencies cannot support the tariff proposal presented for a vote at the October 24, 2023, meeting of the MGHGTF.

Sydney Welter

Western Resource Advocates

October 31, 2023

Statement on Markets+ GHG Task Force Vote

At the October 24, 2023 Markets+ GHG Task Force meeting, Sydney Welter of Western Resource Advocates (WRA) cast a “no” vote on the proposed tariff language. This statement explains the reasons behind the vote, which include the rushed timeline for evaluation and insufficient development regarding the needs of states with non-priced GHG reduction programs. Robust, transparent, and well-functioning GHG design and reporting are essential to produce expected market benefits - including cost-savings, reliability, and decarbonization - and facilitate compliance with the wide range of emissions policies across Western states. WRA supports continued development of the Markets+ GHG design and reporting to ensure these solutions work for the Western Interconnection.

Impacts of Resource Type Designations. WRA appreciates the concerns raised by many parties, including state regulators and utilities, about resource types. Concerns especially focus on Type 1A resources and the risk of uneconomic dispatch with this designation. WRA supports further discussion of resource types to ensure the design is workable for potential market participants and their associated regulators before formalizing it in the tariff.

Evaluation of Leakage Mitigation. MW redesignation, or leakage, is produced when emissions are displaced from one jurisdiction to another due to GHG policies or procedures. While not all leakage is avoidable, minimizing leakage is essential for market performance, decarbonization, and state policy compliance. WRA supports the continued exploration of the surplus identification and optimization methods. While we support the Task Force’s efforts to find a compromise on a potentially effective solution, we cannot provide a final endorsement of any approach without quantitative analysis of re-designation, market clearing performance, and operating costs. WRA appreciates and will examine the analyses anticipated from SPP staff in early November. There was no time to evaluate the proposed methodologies with this necessary detail prior to the October 24th vote. While WRA is eager to find workable solutions for Markets+, the development timeline has been too short to produce a sufficiently robust GHG design prior to the anticipated tariff filing date.

Non-Priced GHG Reduction Programs. WRA encourages greater communication with Washington and California regulators to ensure that proposed GHG is workable for the states with carbon pricing programs. It is equally important to address the needs of states with non-priced GHG reduction programs. This includes, but is not limited to the states of Colorado, Nevada, and New Mexico where WRA works. Utilities and regulatory agencies in these states need a GHG design that will ensure market participation supports continued compliance with state requirements. This has not been demonstrated to date and WRA does not support entirely deferring this issue from the tariff to potential future discussions. This issue is critical to the ability of some entities to participate in Markets+ moving forward. We appreciate the “State Regulator GHG Task Force Issues List” shared before the meeting and encourage SPP and the Task Force to continue discussions with state regulators to find workable solutions.

Tracking and Reporting. WRA urges continued discussion of GHG tracking and reporting, which is not substantively included in the tariff language to date. The limited description that “the Market Operator will provide data as specified in the Markets+ Protocols to support tracking and reporting required by GHG Pricing Programs, GHG Reduction Programs, and other mandatory GHG reporting programs” is insufficient. It is vital to measuring market performance and supporting state policy compliance that we identify data requirements for potential market participants and state regulators. Tracking and reporting procedures should be developed in conjunction with the other aspects of GHG design and tariff language should include detail beyond this vague statement, to ensure that Markets+ is a feasible offering for prospective participants to join. WRA appreciates and will examine the reporting capability information anticipated from SPP staff in early November.

WRA thanks SPP Staff, Chair Mary Wiencke, Vice Chair Clare Breidenich, all Task Force members, and other interested stakeholders for their work on the GHG tariff language. The proposed GHG design has received substantial feedback and WRA believes the proposal is overall headed in a positive direction, but requires more development. We look forward to continuing to work with SPP and stakeholders to enhance GHG design and reporting for Markets+.

From: Zahnow, Jessica Lynn <Jessica.Zahnow@pse.com>

Sent: Tuesday, October 24, 2023 10:26 PM

Type 1a Energy

PSE's concerns with the inclusion of Type 1a energy can be characterized broadly as a concern for preferential treatment of one type of energy.

- Type 1a gives preference to external specified source resources by guaranteeing they will be attributed to the GHG zone, if dispatched. This preference may result in displacement of GHG internal owned and contracted clean resources, and could displace those resources which utilities have procured for CETA and other policy and customer commitments.
- A guaranteed attribution for one energy type may result in the ability for market participants to sleeve this energy into the stack to ensure it receives attribution in higher-priced intervals.
- Type 1a does not necessarily honor contract deliveries, which was the intent that was provided for this energy type. If the intent is to honor contracts, it needs to be attributed only to the buyer's load in the contract, must only be evaluated for dispatch based on the power balance constraint of that entity, and must not be eligible to be attributed to any other LSE in the GHG Zone.
- It is unclear why energy from a resource outside the GHG zone for which a GHG zone entity has contracted for clean supply should be treated any differently than an internal clean resource or any clean resource in a non-GHG zone with comparable economics. Type 1 b could be economically bid to indicate a willingness to be curtailed.
- PSE is willing to consider more policy explanation and analysis on this product and after considering such information, may be willing to reevaluate inclusion of this product for a transitional period to allow market participants time to analyze and adapt their existing agreements in the context of a day-ahead market.

Market Clearing Process – Type 2 Specified Source

PSE believes the Enhanced Floating Surplus goes beyond the current direction we have from the Washington Department of Ecology with regard to leakage and the definition of surplus, and could raise both attributed emissions and costs for Washington customers, as well as raise cost for the external areas relative to the Floating Surplus methodology. These higher costs and attributions of emissions may not result in any net change in emissions for the overall market footprint. Our design in Markets + should not assume any dispatches outside the GHG zone that enable transfers or attributions of clean energy into the GHG zone are leakage, or are an outcome to be avoided.

Despite those concerns, PSE understands the Enhanced Floating Surplus model could provide a tool for entities with multiple load, contractual, and regulatory obligations to preserve clean energy from their systems for those purposes and believes the Enhanced Floating Surplus methodology represents a compromise that could be tailored to future direction from Ecology. The area in which PSE would like to see more work is on the mechanics of the GHG threshold run, and what resources and potential transfers are evaluated to serve BA or GHG zone load in that pre-dispatch run. This could potentially be accomplished in market protocols.

TEA Opposes Adoption of a Type 1a Specified Source Import and The Enhanced Floating Surplus Optimization Approach

TYPE 1A SPECIFIED SOURCE IMPORTS PROPOSAL

TEA does not see a need for bifurcation of Type 1 resources to accommodate forward contracts in Markets + and opposes the ability for a resource to set the market clearing price (through submission of economic offers) while guaranteeing their delivery to the highest total price area of the market, i.e., the region with the highest combination of marginal energy and marginal GHG costs.

In the base Markets + GHG accounting design, Specified Source Type 1 resources are defined as those resources that have a pre-arranged contract with or are owned by load in Washington. TEA believes that this base design would allow resources wishing to be attributed to serve Washington demand to submit a GHG bid adder of \$0 and/or to self-commit/schedule their resource (i.e., be a “price taker” for both GHG and energy), thereby ensuring their resource is available to the market to meet Washington demand provided there is sufficient demand to be served. TEA believes this most closely replicates the specified-source framework of existing bilateral day-ahead markets.

The current proposal however moves beyond this base design by differentiating Type 1 resources into two categories, Type 1a and Type 1b, where Type 1a resources are dispatched by the market optimization solely to serve Washington demand and Type 1b resources are considered in the optimization as available to serve load both inside of Washington and outside of Washington. From an implementation perspective Type 1a resources are always assessed in the market optimization as including GHG costs in their offers, while Type 1b resources are only assessed in the market optimization as including GHG costs when they are considered for serving Washington load. Importantly, the current proposal does not require Type 1a resources to be self-scheduled/committed as a “price taker” resource but instead allows such resources to express both an economic offer for energy and GHG for the market optimization to consider.

TEA sees the potential for this paradigm to create a unique and improper ability for certain resources to influence market clearing prices, which could result in increased costs to Washington consumers, and therefore does not support the design absent further justification and review. TEA understands that SPP’s Market Monitoring Unit (MMU) has raised similar concerns about the Type 1a framework during Markets + GHG Work Group meetings and TEA requests MMU document its official opinion on Type 1a such that Markets + stakeholders and executive leadership can fully consider their views. TEA also requests SPP provide examples of the practical implications of the Type 1a framework as it is applied in the optimization and suggests multiple scenarios with multiple GHG bid adder levels be included. To the extent that further exploration of the Type 1a proposal demonstrates that Type 1a resources would need to be self-committed/scheduled as “price takers” in the market to address opportunities for these resources to unduly influence the market optimization, TEA would support the Type 1a proposal with that qualifier – though, TEA questions the need for the Type 1a differentiation if such a requirement were imposed.

ENHANCED FLOATING SURPLUS PROPOSAL

I. The Task Force has gone beyond its scope and gotten too far ahead of Washington Department of Ecology Rulemaking.

The MGHGTF was assigned to develop tariff and protocol language to reflect state emissions policies, including carbon pricing and accounting necessary to reflect Washington's Cap and Invest Program. At a minimum, this requires that:

- Energy generated in the state or imported into the state of Washington reflect their GHG compliance costs when considered for dispatch of energy.
- Imports into Washington are separated into 'specified' and 'unspecified' buckets.
- Whoever first delivers energy into the state (either the in-state generator or the importer) has a compliance obligation to purchase carbon allowances to cover its emissions.
- MWs and emissions associated with imports must be reported and quantified.
- Importers with a compliance obligation must purchase and retire allowances (one allowance per ton of GHG).
- The decision for a resource outside of Washington to subject themselves to a GHG compliance obligation (via importing into Washington) must be voluntary.

The MGHGTF has gone beyond the basic framework required by Washington law and has proposed new eligibility criteria and a methodology for limiting specified source imports for the stated purpose of reducing 'MW redesignation'. MW redesignation is believed to enable emissions leakage¹ outside the state of Washington. However, the MGHGTF has not determined how to measure or account for leakage and thus it is unclear how much leakage would occur in reality under any proposed solution and whether a particular solution reduces emissions leakage or not.

Further, Department of Ecology issued its initial draft of proposed changes to the Cap and Invest Program for its Electricity Markets Rulemaking on October 4th where they stated that:

- The proposed changes are intended to ensure equitable treatment across bilateral and centralized markets;
- Leakage is likely a linkage issue;
- There is substantial uncertainty in the magnitude and methods to address linkage; and
- Department of Ecology does not have any proposed language on leakage at this stage.

Without guidance from Department of Ecology on the issue of emissions leakage, it is premature for the MGHGTF to take up this issue and it is also unclear whether creating restrictions on supply eligible to serve

¹ The Washington Climate Commitment Act (Ch 173-446 WAC) defines leakage as "a reduction in emissions of GHGs within the state that is offset by a directly attributable increase in GHG emissions outside the state". Leakage is only referenced in relation to Emissions Intensive Trade Exposed (EITE) facilities, which are core industries, primarily manufacturing, that release large amounts of GHG emissions and face significant national and global competition for their products. When asked for a policy statement on leakage, Department of Ecology stated that the Washington Legislature already provided such a statement: *The legislature further finds that climate policies must be appropriately designed, in order to avoid leakage that results in net increases to global greenhouse gas emissions and increased negative impacts to those communities most impacted by environmental harms from climate change.* [RCW 70A.65.005].

Washington load is appropriate or has any regulatory basis given the guidance (or lack thereof) from Department of Ecology to date.

II. The Enhanced Floating Surplus approach does not reduce leakage.

The examples provided by SPP to date on the Enhanced Floating Surplus show a significant increase in cost to Washington load with no little to no change in actual emissions. It is paramount that if Markets + implements a solution that causes significant cost increases for Washington load, that those costs are justified with a demonstration of actual reduction in emissions leakage and that the reduction of emissions leakage are actually mandated by Washington law.

As mentioned previously, the decision for a resource outside of Washington to make itself available to serve Washington load and therefore subject themselves to the compliance obligations of Washington's Cap and Invest program is a voluntary decision. Natural gas and coal outside of Washington typically do not volunteer themselves to be "attributed" to Washington because these resources, if dispatched, are likely to have production and carbon costs that are on the margin of the market as whole, i.e., it is likely the marginal GHG shadow price they are paid will merely cover their cost of purchasing carbon allowances and therefore there is little to be gained from their being incrementally dispatched and attributed to serve Washington demand. However, if such resources do elect to be dispatched and attributed to serve Washington demand, they've also now taken on an administrative burden to comply with Washington's program and must participate in the carbon allowance auctions or purchase allowances on the secondary market. At worst, these resources miscalculated their costs to purchase carbon allowances and the GHG shadow price does not sufficiently cover their costs. As such, natural gas and coal resources outside of Washington are not incented to be imported into Washington. And to the extent these resources don't voluntarily allow themselves to be attributed to Washington, these resources are considered in the dispatch based on their energy costs only.

As indicated by CAISO's Department of Market Monitoring², it is inaccurate and misleading to assume that resources attributed to the GHG zone when not fully dispatched to serve their own obligation first (or what Markets + has termed "MW Redesignation") equates to emissions leakage. Examples provided by SPP on the different outcomes between the Enhanced Floating Surplus and the Floating Surplus options showed no change in emissions, even though the Enhanced Floating Surplus resulted in some "MW Redesignation". However, "MW Redesignation" does not equate to emissions leakage. If a reduction of leakage is mandated by Washington state law, TEA recommends that the MGHGTF focus efforts on defining leakage and determining a method for measuring leakage so that solution to reducing leakage can be properly tested and justified.

III. The Enhanced Floating Surplus approach creates significant unnecessary complexity that risks price distortion.

² <https://www.caiso.com/Documents/DMM-Comments-on-GHG-Coordination-9-13-2023-Working-Group.pdf>

To implement the Enhanced Floating Surplus approach, a dynamic constraint (Surplus Threshold) must be applied to every resource, a dynamic constraint that changes for every hour in the Day-Ahead Market and for every 5-minutes in the Real-Time Market. SPP will run a first pass with the dynamic constraint in place to determine what each resource operator's modified surplus amount is based on the quantity of supply that dispatched above the Surplus Threshold. The modified surplus amount then gets applied as a floating Surplus. This approach creates the following complexities that require additional market operator intervention:

- Given that the surplus quantity applied in the second pass is constrained by the exact amount needed to serve Washington load in the first pass, the marginal unit in the second pass is inaccurately forced to be either a natural gas plant in Washington or an unspecified import into Washington. SPP has acknowledged this shortcoming and has proposed to add an additional .001 MW of eligible supply to serve Washington for each resource in the second run to allow those resources to set the marginal price.
- SPP is unable to run two passes every 5 minutes and has stated that they will be limited to running two passes every 15-minutes. This creates a gap between what information is used in the 15-minute run versus what actual surplus a resource has in each of the three 5-minute intervals covered by that two-pass run. SPP offered that an uncertainty amount of surplus must be added to each of the 5-minute runs to cover for that gap. However, to the extent that uncertainty amount is erroneous, the actual dispatch will inaccurately force natural gas in Washington or an unspecified import as the marginal resource serving Washington load. The risk of this inaccuracy can swing the marginal price in Washington from \$0/MWh to \$35³/MWh or higher given the high price of carbon allowances.

In sum, the system complexity introduced by a continuous two pass solution that requires additional modification post processing is unnecessary and risks inaccurate results that can have substantial cost implications to Washington load.

IV. The Enhanced Floating Surplus approach does not ensure linkage of Washington's Cap and Invest Program with California's Cap and Trade Program

Several MGHGTF members have argued that the Enhanced Floating Surplus method is needed to allow for linkage of Washington's Cap and Invest Program with California's Cap and Trade Program. However, as Washington Department of Ecology has stated, there is substantial uncertainty in the magnitude and methods to address linkage and there are many criteria that must be met before linkage can occur.

Washington Department of Ecology has released a Preliminary Analysis⁴ on linkage with Quebec and California where Department of Ecology does note that linkage should minimize leakage but then defines leakage as "when companies move to states that don't regulate GHG emissions to avoid regulatory costs".

First, it is not within the scope of the MGHGTF to ensure link-ability between Washington's and California's Cap and Trade programs. Second, adoption of the Enhanced Floating Surplus does not address the multiple requirements needed for linkage and has not been proven to increase the likelihood of linkage of the programs.

³ Carbon Allowances in Washington have been clearing at the quarterly auctions between \$60 and \$70 per MT/CO₂. The unspecified emissions rate is 0.428 MT/CO₂, which is roughly equivalent to a natural gas plant.

⁴ <https://apps.ecology.wa.gov/publications/documents/2314005.pdf>. See P. 35 for definition of leakage.

POSSIBLE PATHS FORWARD

1. ***TEA supports the Floating Surplus approach as a starting point for Markets +.*** The Floating Surplus method meets the requirements of the Washington Cap and Invest Program, has already been approved by FERC, and is simple to implement. The Floating Surplus approach also limits intervention in the economic dispatch of the market, reflecting the cost of the Washington Cap and Invest Program in the market but not overly constraining supply that is eligible to be attributed to serve Washington load.
2. ***An alternative that TEA would support exploring is to make the Surplus threshold optional.*** TEA acknowledges that some suppliers have expressed interest in the Surplus threshold approach to better control what supply gets attributed to Washington versus which supply is set aside to serve load outside of Washington. The stated justification for this need was that loads in other states that have carbon reduction programs will need to be able to report MWs delivered from their contracted supply for compliance with their respective state compliance obligations. Specifically, BPA has stated that the Enhanced Floating Surplus approach allows them to set their Surplus threshold above what is needed to serve their Oregon loads to ensure the right amount of MWs are dispatched to serve Oregon and not attributed to Washington. TEA is still evaluating the merits of this argument but to the extent it is valid, TEA supports exploring an alternative that allows entities like BPA to determine a Surplus Threshold as an optional choice versus a requirement.