

# Clean Energy Transformation Rule: Energy Transformation Projects

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**Rulemaking Meeting #3**  
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# Progress on Energy Transformation Projects (ETPs)

- Stakeholder Meeting #1
  - Overall Ecology approach to CETA
  - Proposed concept on ETPs
- Stakeholder Meeting #2
  - Draft rule outline for ETPs
  - Substantial discussion
- Interagency discussions



# Goals for Today

- Expand on the role of protocols in utility operations and energy projects
- Review discussion to date on energy transformation projects
- Summarize current direction of rulemaking
- Propose new rule concepts





# The Role of Protocols

# What is a Protocol?

- A compendium of principles, procedures, criteria, processes, methodologies, rules, or other requirements that ensure uniform or consistent application of those elements across multiple entities for a common purpose or goal.



# Electric Utility Protocols (1)

- **DNP 3** communications protocol
  - Establishes processes and criteria for sending data between master stations and utility substations
- **NERC reliability standards** (“standards” here means mandatory protocols)
  - Processes, criteria, and methodologies for ensuring grid reliability across systems
  - Mandatory standards replaced regional voluntary protocols over time



# Electric Utility Protocols (2)

- Western Electricity Coordinating Council (WECC) Transmission Expansion Planning Policy Committee (TEPCC) **Regional Transmission Expansion Planning Protocol**
  - Used for regional transmission plans and to facilitate meeting certain transmission provider obligations



# Electric Utility Protocols (3)

- Northwest Power and Conservation Council (NWPCC) Regional Technical Forum (RTF)  
**Standard Protocols**
  - Methodologies for measuring and quantifying energy efficiency measures





# Protocols and CETA

- A good definition for a protocol in the context of CETA would be a document that makes actionable the criteria for ETPs required in law.
- Something that bridges the gap between the broad statutory language and the detail necessary to implement projects.



# How Can a Protocol Work with Energy Projects?

- To respect the rulemaking process, we use an energy project that by definition (and by law) cannot be an energy transformation project as an example.
- A simple, single wind turbine works as an example (but not as an ETP since they can't generate electricity that is used to meet the standard).



# Hypothetical Protocol Construct

- The protocol itself would be a document that requires the project proponent to answer questions and perform calculations, in a form that demonstrates the project meets the requirements and criteria.
- We'll use the protocol criteria from the draft rule outline (grounded in the CETA statute) as an example.



# Applicability

- Description of the specific types of projects or programs to which the protocol applies.
  - “This protocol applies to small wind energy projects.”



# Assessment Boundaries

- Identification of the primary effects of the project or program, such as fossil fuel reductions or energy impacts, and key secondary effects, such as benefits to utility customers, and the geographic regions in which these effects occur.
  - “Small wind energy projects will generate renewable electricity that result in benefits including: fossil fuel reductions at power plants that otherwise would be providing power, greenhouse gas reductions associated with those fossil fuel reductions...”
  - “The project proponent must identify all the geographic regions to which these benefits apply.”



# Temporal Scope

- Identification of the time scale over which the project or program is expected to persist, and the capability of the project or program to provide the same level of benefits over time, in addition to any procedures for ensuring consistent benefit outputs over time.
  - “The project proponent must state the expected lifetime of the project, the anticipated start and end dates, and the expected capacity factor of the wind turbines over time.”



# Quantification Methods

- Methodologies to be employed to measure effects from the project or program including proration methods, if applicable, and what conversion factor or factors will be used, if necessary, to ensure the project benefits can be expressed in units of energy.
  - “Emission benefits from the wind turbine are calculated by taking the annual generation in MWh and multiplying it by XXX. Those emission benefits may be translated into CETA-compliant clean energy by multiplying those emission benefits by the conversion factor YYY.”
  - [Note: The example fails because wind energy is already compliant with the clean energy standard.]



# Baseline Procedures

- Procedures by which to establish a baseline or benchmark against which to measure project or program performance over time.
  - “The baseline performance of the wind turbine project shall be established using the Northwest Power Pool grid average fuel mix as the assumed proxy for generated electricity...”





# Fossil Fuel Effects

- Analysis sufficient to demonstrate that the project or program does not create a new use of fossil fuels resulting in a net increase of fossil fuel usage.
  - “The project proponent must inventory and quantify all uses of fossil fuels associated with the project and demonstrate that the net effect of the project does not increase fossil fuel use.”



# Additionality Tests

- Procedures or demonstrations that the project or program is not required by another statute, rule, or other legal requirement and also not reasonably assumed to occur absent the investment in the project or program, or if an investment has already been made, not reasonably assumed to occur absent additional funding in the near future.
  - “The project proponent must identify any law, rule, or regulation that requires the installation of wind turbines or that mandates the use of the wind energy that would be generated by the small wind energy project.”
  - “All financial investments associated with the wind energy project must be identified by the project proponent, including the investment that is to be considered the investment being done for the purposes of CETA...”



# Monitoring Procedures

- Plans or procedures for ensuring that project or program outcomes are measurable, observable, and recorded over time.
  - “The project proponent will install appropriate metering and monitoring equipment to capture wind turbine output...”



# Reporting Strategies

- Documentation of ongoing, planned, or anticipated reporting requirements.
  - “Consistent with WECC guidelines for WREGIS, the output of a small wind turbine project will be reported through WREGIS for REC generation.”



# Verification Procedures

- Demonstration or attestation of commitment to third party verification.
  - “An independent third party verification service or verifier must be identified by the project proponent, along with proof of engagement for at least X years of project verification.”



# Enforcement Regimes

- A listing of any relevant regulatory or compliance authorities that have some degree of jurisdiction over the project or program.
  - “The project proponent must list all jurisdictions, and the applicable laws or regulations, which directly affect the wind turbine or its operations.”





# Response to Feedback & CETA Statutory Review

# Stakeholder Response

- Numerous stakeholders have stated that Ecology does not have the statutory authority to establish requirements for energy transformation projects beyond setting quantification factors, defining (some) criteria, and (perhaps) determining eligible project types.





# RCW 19.405.040

- (2) Investments in energy transformation projects used to satisfy an alternative compliance option provided under subsection (1)(b) of this section **must use criteria developed by the department of ecology**, in consultation with the department and the commission.  
[emphasis added]



# RCW 19.405.100

- (7) The department of ecology must adopt rules, in consultation with the commission and the department of commerce, **to establish requirements for energy transformation project investments** including, but not limited to, verification procedures, reporting standards, and other logistical issues as necessary. [emphasis added]



# Ecology's Position

- Pursuant to RCW 19.405.040 and 19.405.100, Ecology has clear authority, and a mandate, to set criteria and establish requirements for energy transformation projects.
- Ecology will continue to pursue its rulemaking on this assumption.



# Statutory Direction to Ecology

- In addition to the core mandate to Ecology, the statute requires that energy transformation projects must:
  - Provide energy-related goods or services, other than the generation of electricity.
  - Reduce fossil fuels and greenhouse gases.
  - Provide benefits to electric utility customers.
  - “Be associated with the consumption of energy in Washington.”
  - “Not create a new use of fossil fuels that results in a net increase of fossil fuel usage.”
  - Not be double counted toward standard.



# Emission Reduction Criteria

- The statute lays out additional criteria for ETPs in RCW 19.405.040 (2), including that emission reductions must be:
  - Real, specific, identifiable, and quantifiable
  - Permanent
  - Enforceable by the state of Washington
  - Verifiable
  - Not required by another statute, rule, or other legal requirement
  - Not reasonably assumed to occur absent investment, or if an investment has already been made, not reasonably assumed to occur absent additional funding in the near future



# Conversion Factor(s)

- RCW 19.405.040 (2) requires Ecology to “establish a conversion factor” for ETPs from greenhouse gas emissions to energy and a separate factor (or factors) for transportation ETPs.
- A conversion factor is a critical part of the quantification requirement, but ultimately belongs in a protocol as the factor lacks meaning without context, guidance, and specific methodologies about how to use and apply it.



# Ecology Draft Protocol Concept

- Everything that Ecology has proposed be included in a protocol is grounded in statute.
- Ultimately, demonstration that an ETP is consistent with CETA means showing that an ETP is consistent with a protocol.
- “Use Criteria” = Use Protocol



# Ecology Draft Protocol Concept

<u>Protocol Component</u>	<u>RCW linkage</u>
• Applicability	• 19.405.020 (18)(a,b)
• Assessment boundaries	• 19.405.020 (18)(a,d) & .040 (3)
• Temporal scope	• 19.405.040 (2)(a,b,d)
• Quantification methods	• 19.405.040 (2) (a,b),(4)
• Baseline procedures	• 19.405.040 (2)(a,b,d)
• Fossil fuel effects	• 19.405.040 (3)
• Additionality tests	• 19.405.040 (2)(e,f)
• Enforcement regimes	• 19.405.040 (2) (c)
• Monitoring procedures	• 19.405.100 (7) & .040 (d)
• Reporting strategies	• 19.405.100 (7) & .040 (d)
• Verification procedures	• 19.405.100 (7) & .040 (d)





# Comparison: Stakeholder & Ecology Proposals for Protocols

- Types of ETPs
  - Conversion factors
  - Proposals vary, but some combination of verification, reporting, recordkeeping, and (perhaps) some additional criteria
- Types of ETPs
  - All statutory criteria (RCW 19.405.040(2))
  - Verification
  - Monitoring
  - Reporting
  - Logistical and procedural requirements (RCW 19.405.100 (7))



# Clarification on Timing

- Draft Ecology concept for expedited protocols
  - Hypothetical, but assume protocols could be done in a year (plus or minus) depending on topic.
  - Multiple protocols could be worked on before submission.
- Typical protocol process in carbon markets (e.g., CARB)
  - Historically, CARB cap and trade protocols take years (3-5 years).
  - Agency-driven protocols are often linear (done one at a time due to staff, resource constraints).



# Clarification on Protocols

- There are no existing protocols that address all statutory requirements in CETA (RCW 19.405.020, .040, & .100).
- No CARB protocols (e.g., LCFS)
- No carbon market protocols
- CDM protocols probably closest



# Components of Protocols

- Ecology recognizes, and plans for the fact, that key components of existing protocols can be adopted into a CETA-compliant state.
- CARB LCFS guidance has good logistical concepts, but relies on incompatible GHG accounting.
- CDM protocols need modification.



# Clarification on Process

- Ecology has never proposed being in the role of providing final approval to ETPs.
- As noted repeatedly throughout this process, that role lies with UTC and the Governing Boards.
- Ecology is required to establish requirements and criteria for ETPs.



# Range of Options on Projects

- Evaluating projects against criteria (i.e., protocols) is one of several verification steps.
- Ecology is required by CETA to establish verification requirements.
- Ecology will establish means by which ETPs are verified.



# Clarification on Project Initiation

- CETA does not allow for compliance to be credited toward entities other than the electric utility that makes the investment. (RCW 19.405.040 (5))
- This does not stop outside entities from proposing projects, but for that project to count, it has to be paired with an investing electric utility.



# Clarification on CETA Rulemaking

- (9) Pursuant to the Administrative Procedures Act, Chapter 34.05 RCW, **rules needed for the implementation of this chapter must be adopted by January 1, 2021**, unless specified otherwise elsewhere in this chapter. These rules may be revised as needed to carry out the intent and purposes of this chapter.





# Rules vs. Process

- The process underway at Ecology should result in all Ecology rules necessary for the implementation of CETA being complete by the end of 2020, as required by law.
- Rules are only one element of a program. Laws, procedures, and guidance all play a role as well.





# Moving Forward

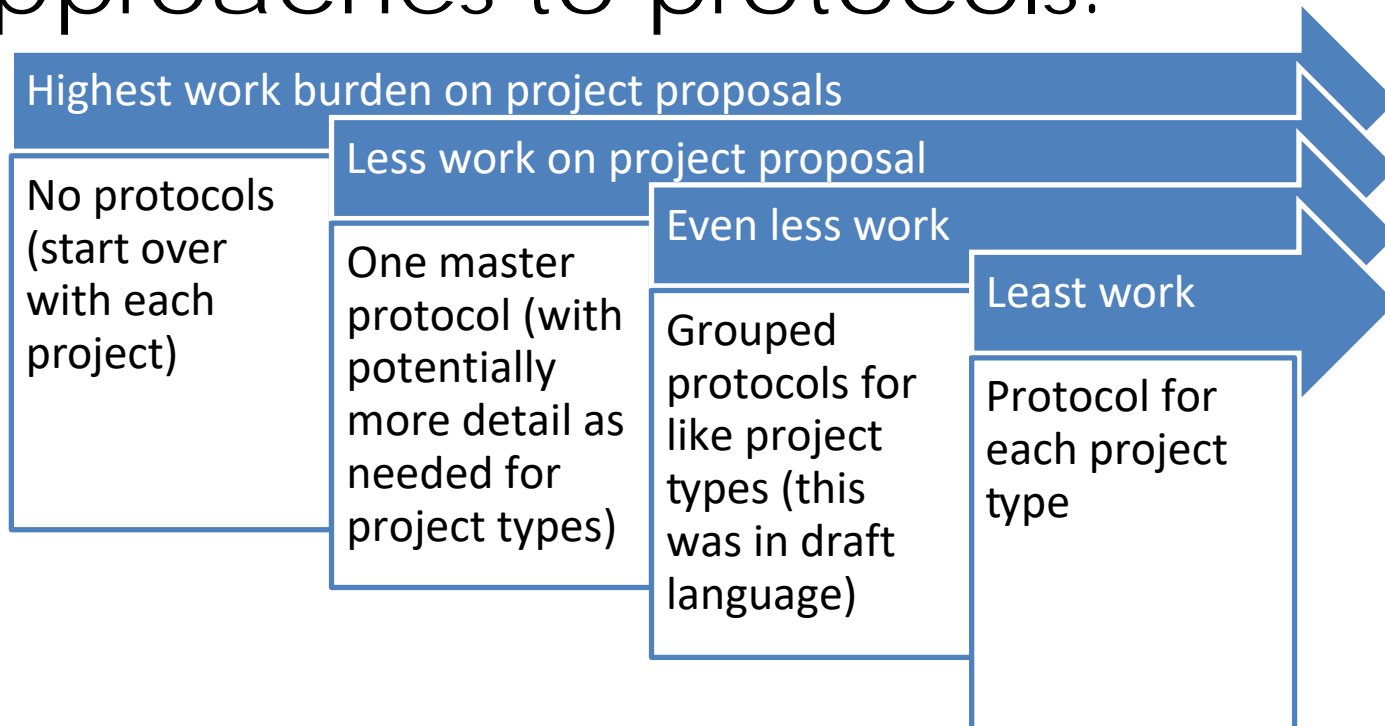
# Proposed Concepts for Next Iteration of Rule Language

- Informal comments to date have been very helpful. Thank you!
- There are areas where CETA provides a clear mandate to Ecology. We don't see discretion or flexibility in those areas.
- Other areas have more flexibility.



# Approach to Protocols

- At the last meeting, we discussed a continuum of possible approaches to protocols.



# Moving to Master Protocol Model

- Many stakeholders feel that they can't estimate or plan for ETPs without a protocol in place.
- This approach would ensure a protocol is in place relatively quickly. The master protocol would be more detailed over time, but still useful right away.



# Advantages of Master Protocol

- Many of the criteria in CETA lend themselves to redundancy in application across protocols.
- CETA quantification factor language is uniform except for transportation projects.
- Expediency in implementation



# What Might A Master Protocol Look Like?

- Closest analogue is WRI/WBCSD GHG Protocol for Project Accounting, but key CETA elements are missing.
- Added detail on additionality
- Added elements unique to CETA
- Incorporation by reference of existing materials where appropriate or useful
- Evolving document, but versioned, so a project would use the available version when the project is proposed



# Project Verification

- Strong opposition to Ecology playing any role in project proposal evaluation
- Ecology is required to establish project verification requirements.
- Utilities are required to use criteria established by Ecology.





# Third Party Verification

- To recognize concerns, the next iteration of the rule will move to a third party verification model.
- Standard procedure in other project-based programs and protocol accounting
- Suggestion of Ecology-based optional verification approach based on EIA is interesting concept.



# Moving More Quickly on Process for Determining ETP Types

- Next iteration of rule should have more accelerated process for determining ETP types.
- Still in process of determining how to do this within confines of APA and mandatory rulemaking deadline at end of 2020.



# Other Areas

- Will look to expedite processes throughout revised language.
- Need to keep considering how to ensure transparency and how to maintain consistency with coming CETA compliance regimes.
- Early compliance credit concepts



# Summary: Ecology's Role

- "...use **criteria developed by the department of ecology**"
- "The department of ecology must... **establish requirements** for energy transformation project investments"
- Ecology's core work is to develop criteria and establish requirements for energy transformation projects.





# Comments and Reactions

# Next Steps

- Next stakeholder meeting planned for Ecology:
  - April 9, 2020 (9 a.m. – noon)
  - This is **tentative** and subject to COVID-19 conditions and agency policy about meetings during this time.
- Summary of this meeting – email or post on the rulemaking website by **March 23, 2020**
- Provide comments and suggestions – by **March 24, 2020** <http://aq.ecology.commentinput.com/?id=TYfx2>



# Ecology Rulemaking Timeline



# More Information

- Rulemaking website:  
<https://ecology.wa.gov/Regulations-Permits/Laws-rules-rulemaking/Rulemaking/WAC-173-444>
- To join the e-mail notification list:  
<http://listserv.ecology.wa.gov/scripts/wa-ECOLOGY.exe?SUBED1=ECOLOGY-CLEAN-ENERGY-UPDATES&A=1>





# Contacts

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