Comments of the Western Power Trading Forum on Design of an Oregon Cap and Trade Program

February 5, 2018

The Western Power Trading Forum (WPTF) offers these comments to the Senate Committee on Environment and Natural Resources on Senate Bill 1507. WPTF is an organization of power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the Western United States. WPTF has over 80 members participating in power markets within the western states, as well as other markets across the United States and Canada.

If Oregon adopts a cap and trade program, WPTF would support full linkage of Oregon's program to that of California and the Canadian provinces that participate in the Western Climate Initiative (WCI). While most of the program elements laid out in SB1507 are consistent with those of the WCI, we are concerned that the proposal to designate electric utilities as the covered entities responsible for electricity imports is inconsistent with the California program. Because of the interlinkage of the regional power system, particularly via the Energy Imbalance Market (EIM), inconsistencies in the treatment of electricity imports between California and Oregon's programs could impair linkage of the two programs.

We recognize that the proposed bill would allow the Environmental Quality Commission to modify the point of regulation for electricity imports, but do not consider that this provides enough certainty for program linkage. Further, Section 35, paragraph 4(b)states that "a multijurisdictional electric company may rely upon a cost allocation methodology approved by the Public Utility Commission for reporting emissions allocated in this state." This provision would seem to conflict with the authority given to the Commission to determine a different point of regulation for imports by a multi-jurisdictional electric company.

WPTF recommends that the cap and trade legislation be modified to assign responsibility for emissions associated with imports to the entity that imports the electricity into the state. Detailed methods for determining the responsible entity and emissions associated with imports should be left to rule-making. We provide more detail on these concerns below.

Different treatment of resources in the EIM for serving load in California and Oregon could impair linkage of an Oregon cap and trade program to California.

The proposed legislation would place responsibility for emissions associated with electricity imports on the electric company or consumer-owned utility, if the emissions associated with serving that entity's load exceed 25,000 metric tons of carbon dioxide equivalent annually. This approach is fundamentally different from California's program, which places responsibility for emissions associated with imported electricity on the importer of the electricity, i.e. the entity that delivers electricity into the state. While Oregon's approach may be workable for electricity that is purchased bilaterally because the buyer can negotiate to purchase electricity from cleaner sources, it is problematic for imports that occur via the EIM.

The California Air Resources Board (CARB) has worked with the California Independent System Operator(CAISO) and EIM stakeholders to develop a methodology to accurately assign electricity generated from EIM resources and associated emissions to California load within the EIM algorithm.

Under this approach, resources that participate in the EIM and are willing to serve California load (and thus be subject to the California cap and trade program) are economically dispatched by the EIM algorithm, considering both the energy cost of the resource and any associated carbon costs if the electricity is imported to California. The EIM algorithm allocates dispatched resources either to the EIM footprint, or to California. The Scheduling Coordinator for the resource is considered the importer (because that entity controls the resource's bidding) and is responsible for the emissions associated with that import.

If Oregon's program places responsibility for imports on the purchasing utilities (i.e. Portland General Electric and Pacificorp), then because the scheduling coordinator for resources located outside Oregon would have no emission obligation for imports to Oregon, the carbon costs for these emissions could not be factored into the EIM's dispatch of those resources and assignment to Oregon load. This difference in treatment of EIM resources, depending on whether their output is assigned to Oregon or to California, would add significant complexity to the EIM operation, and would increase the potential for emissions leakage.

WPTF believes that these issues would be of significant concern to CARB and could potentially impair program linkages. We therefore urge the Committee to modify the legislation to designate the electricity importer as the covered entity for emissions associated with imports into the state. The exact mechanics for determining how to identify the importer, and the emissions to be assigned to imports can be further addressed through rule-making. This would enable more deliberation with electricity sector stakeholders and between appropriate Oregon regulatory bodies, as well as coordination as needed with CARB and the CAISO.

We recognize that Oregon does not consider BPA to be subject to the state's jurisdiction and that for this reason, BPA could not be designated a covered entity under the program. In this narrow case, it may be appropriate to designate the utility that purchases from BPA as the covered entity for emissions inherent in BPA purchases. Alternatively, because of the small scale of BPA emissions, these emissions could be accounted via an allowance set-aside, rather than by shifting compliance responsibility downstream to BPA customers. Under this approach, the program would set-aside a small pool of allowances out of the overall program cap. Allowances would be retired from the pool annually to reflect any emissions associated with BPA power serving Oregon load. Any remaining allowances would be returned to the market.

The provision enabling a multijurisdictional electric company to use a cost allocation method for reporting emission should be eliminated.

Section 35, paragraph 4(b) of the legislation pre-supposes a particular method of reporting emissions and hence determining the carbon obligation, for a multijurisdictional electric company (i.e Pacificorp), based upon an approved cost allocation methodology. Pacificorp's cost-allocation methodology is currently under development and will need to be negotiated and approved by multiple states. If Oregon adopts a cap and trade program, the program rules for determining compliance obligation for in-state resources and imports, and any costs incurred by Pacificorp for serving its Oregon load due to the program, is one factor of many that will need to be addressed in developing the cost allocation methodology. The cost allocation methodology should be approved taking into account the cap and trade program rules – not the other way around. To instead subject program rules to compatibility with the cost allocation methodology could prevent adoption of appropriate rules for the treatment of

electricity imports. We therefore recommend that Section 35, paragraph 4(b) of the proposed legislation be deleted.