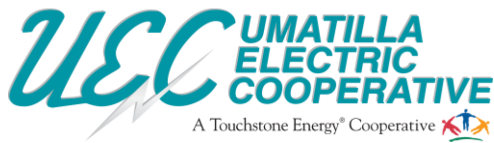

March 1, 2019

Joint Committee on Carbon Reduction
Oregon State Capitol
900 Court St. NE
Salem, OR 97301

Dear Co-Chairs Dembrow and Powers, Vice-Co-Chairs Bentz and Brock Smith, and Members of the Committee:

My name is Robert Echenrode and I am the General Manager and CEO of Umatilla Electric Cooperative (UEC). UEC is a member-owned business that sells energy, invests in and supports other services to improve the quality of life in our communities. UEC serves a large portion of the Columbia Basin and Blue Mountain country of Northeastern Oregon. The cooperative's territory includes Boardman and northern Morrow County and covers much of Umatilla County, including portions of the cities of Hermiston and Pendleton. I appreciate the opportunity to testify before you today.

UEC has been working throughout the summer and fall with the Carbon Policy Office (CPO) and other consumer owned utilites (COUs) and trade associations. We were pleased to see the work on common issues such as point of regulation and 100 percent allowances that were included in HB 2020. However, not all COUs are similarly situated and the one-size fits all treatment of COUs in the bill is a concern for UEC. As currently drafted, the bill does not adequately consider forecasted load and it does not take into consideration UEC's existing RPS compliance obligations. These concerns should be addressed in the bill because UEC is contractually unable to control its market purchases.

For background, UEC is a member in PNGC Power, a Portland-based electric generation and transmission cooperative owned by 15 Northwest electric distribution cooperative utilities with service territory in seven western states (Oregon, Washington, Idaho, Montana, Utah, Nevada and Wyoming). Under the bill, PNGC is the "electric system manager" which is the regulated entity that schedules the electricity for its members. UEC is the only regulated entity in the PNGC membership and has a very different load profile than the other members.

UEC (and other PNGC members) are in an exclusive contract with PNGC that expires in 2028 which coincides with the date that BPA contracts expire. When UEC contracted with PNGC, no one anticipated the tremendous load growth in our service area that is primarily a result of new data centers and the expansion of irrigation to area farmers. As a result, as our load grows the percentage of non-federal market purchases increases. By 2020, PNGC will be purchasing approximately 80 percent of UEC power from the market.

We appreciate that the bill includes in its purpose statement, to provide assistance "to households, businesses and workers impacted by the transition" to achieve greenhouse gas reductions, and the mechanism for COUs is to provide 100 percent of the covered emissions that are "forecast for 2021, based on representative years," with a declining cap thereafter. COUs have been assured that they can use their allowances to offset all of their emissions in the first reporting year, and over time, adjust power resources

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to renewable energy and otherwise become more efficient to meet the declining cap. This is the current mechanism in the bill to minimize rate shock for consumer owned utility customers. That approach appears satisfactory to most COUs; however, UEC has a significantly different load profile than other COUs and it does not work for UEC.

Our first concern with the bill is it appears allowances will be calculated using the 3 year average of the total emissions "from the three most recent years prior to 2021." While its impossible to predict total emissions in the future, as a general matter an increase in load will likely result in an increase in emissions. UEC's average load for 2018 through 2020 is approximately 230 MW. Under the current version of the bill, UEC's "100 percent" allowances will be based on the emissions associated with this average.

However, UEC has a forecasted load growth that will be approximately 415 MW in 2021, 470 MW in 2022, 580 MW in 2025, and finally flattening out to 585 MW in 2028. There will be emissions associated with this growth and the current forecast benchmark of 2021 will most likely result in UEC receiving in effect less than 100 percent of the allowances that UEC will need to match its emissions in the first year of the program. The 2021 benchmark does not take into consideration forecasted growth, i.e., economic development. Said a different way, UEC will likely have to go to the market in the first year of the program and purchase allowances and each year thereafter purchase even more allowances. The risk we see is there currently is no mechanism in the bill to address forecasted growth for UEC and our ratepayers could be exposed to rate shock as these costs get passed down. This is inconsistent with the "transition" goal of the carbon program and needs to be addressed, and in effect, punishes planned economic development.

A second UEC concern is that we are already subject to an RPS compliance regulation because of our load growth. Beginning in 2022 we have to be at 5 percent compliance, 15 percent in 2028, and 25 percent in 2038. UEC is already preparing to meet its compliance requirements. Like the investor owned utilities, our ratepayers should not have to pay two different compliance costs for the same megawatt of power. Currently, nothing in the bill addresses this and as a result, UEC is subject to an even higher cost of compliance because it will have to comply with both the RPS requirement and the carbon policy.

The last concern we have is not an issue with the bill but is based on the reality of our contractual obligations with PNGC. While UEC intends to work with PNGC to minimze emission exposure, ultimately UEC does not have the ability to control its own destiny in a carbon regime. UEC is just one vote out of fifteen members. While this isn't an issue you can legislate, it highlights the importance to address the forecast benchmark and the RPS inequities in the bill.

In summary, HB 2020's one-size fits all approach for COUs does not address UEC's unique situation. Under the current bill, our customers are exposed to rate shock due to allowance allocation based on a looking-back forecast, they would be paying twice the compliance cost for the same megawatt of energy, and UEC has no control over its market purchases, making it more difficult for UEC to mitigate against these risks. These higher costs will be passed to customers including emissions-intensive, trade-exposed (EITIs), adding an additional burden on their cost of compliance, and to commercial and individual members who will also be subject to direct and indirects costs of the carbon program with higher prices at the pump and for higher costs of goods as compliance costs get passed on.

Thank you for providing me with the time to identify these concerns and UEC stands ready to work with the committee to address these issues.