

**Comments of the Western Power Trading Forum
to the Oregon Clean Energy Jobs Work Group
on Utilities and Transportation**

November 15, 2017

The Western Power Trading Forum (WPTF) offers these comments to the Clean Energy Jobs Work Group on Utilities and Transportation (the Workgroup) on issues related to Senate Bill 1070. 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.

WPTF's comments address two of the policy questions raised by the workgroup: the point of regulation for the electric sector and the allocation of allowances.

Point of Regulation for the Utility Sector

Options considered by the Work Group are consistent with an FJD approach

The Work Group has specifically requested input on the appropriate point of regulation for the electric sector. At the November 7 meeting, discussion focused on two different approaches: a First Jurisdictional Deliverer (FJD) approach versus a load-serving entity or consumer of energy approach.

Under a true load-serving entity approach, such as was considered in California during the early design phase of California's cap and trade program, load-serving entities would be responsible for all emissions associated with all generation serving its load. A load-serving entity approach would not place any emission responsibility directly on in-state electric generators; rather the responsibility would flow downstream to the load-serving entity that utilizes this generation.

Based on the SB1070 language, the Department of Environmental Quality (DEQ) study¹, as well as discussions at the meeting, WPTF does not believe that a true load-serving approach is being proposed by any stakeholder for Oregon. All stakeholders in the process seem to agree that electric generators in the state should be subject to the regulations so that emissions from these facilities are captured at the stack, and that emissions associated with electricity that is imported into and consumed in the state should also be accounted and regulated under the program. This is essentially a first jurisdictional deliverer approach in that it regulates electric generation plus electricity imported and consumed.

The narrow issue of concern to Work Group participants is the appropriate mechanics to account for and assign responsibility for emissions associated with imported electricity – not the point of regulation for the electricity sector as a whole.

¹ <http://www.oregon.gov/deq/FilterDocs/ghgmarketstudy.pdf>

Emissions from in-state electricity generation must be regulated at the source

WPTF agrees that emissions must be regulated at the source for electricity generators located in Oregon. This will ensure that the generator's cost of compliance with the program, i.e. the carbon price, will be internalized in its operating costs, reflected in electricity prices and factored into dispatch decisions. Regulating emissions at the generator level will also ensure that if Oregon's program is linked to California, that these generators will be treated equivalent to California generators and face a common carbon price in the organized electricity markets, including the Western Energy Imbalance Market (EIM).

The mechanics for accounting for and assigning compliance responsibility for emissions associated with electricity imported and consumed in Oregon do not need to be identical to California's

As discussed above, Work Group concerns regarding the first deliverer approach revolve around the actual mechanics of assigning compliance responsibility for emissions associated with electricity imported and consumed in the state. A primary issue is whether assignment of emissions based on North American Energy Regulatory Commission (NERC) e-tags would be possible in Oregon.

California's cap and trade program actually uses three different methods for assigning responsibility for emissions associated with electricity imported to the state. The bulk of electricity imports and emissions are assigned using NERC e-tags, whereby responsibility for an import is assigned to the "purchasing-selling entity" that has title to the electricity as it crosses the border into the state. This works in California because the Balancing Authority Areas (BAA) within the state, including that of the California Independent System Operator (CAISO), are generally aligned with the state's border.

The e-tag method of assigning compliance responsibility could be used in Oregon for imports into BAAs that lie entirely within the state, e.g. that of Portland General Electric. It could not be used for imports into BAAs that overlap states, such as those of PacifiCorp, because e-tags are not generated within BAAs. A different method would therefore be needed to account for emissions associated with the import and consumption of electricity by PacifiCorp's Oregon load.

In this regard, the two other methods used by California may be appropriate. For PacifiCorp's retail load in California, which is served by electricity generated outside California, the California Air Resources Board (CARB) calculates an emission rate for PacifiCorp's entire system. This system emission rate accounts for emissions associated with PacifiCorp's own assets, as well as its market purchases or sales. The system emission rate is then applied to PacifiCorp's California load to determine PacifiCorp's compliance obligation for that load. A similar approach could be used to determine compliance responsibility for emission associated with the portion of PacifiCorp's Oregon load that is not served by the Hermiston facility (which would be regulated a generator.)

The third method that is used to assign responsibility for emissions associated with electricity imported into California is the EIM algorithm. Resources that participate in the EIM are economically dispatched, taking into account both energy costs and any associated carbon costs if the output of the resource is imported to California. The EIM algorithm allocates dispatched resources either to the EIM footprint, or to California. Under California's program, compliance responsibility for emissions associated with electricity that is assigned to California falls on the Scheduling Coordinator for the resource. The EIM algorithm currently distinguished only between California and the rest of the EIM; it is therefore not currently possible for the EIM to allocate electricity to Oregon load. Since both of Oregon's investor-

owned utilities participate in the EIM, Oregon may wish to explore the feasibility of the EIM implementing this functionality in the future.

The second concern raised at the workshop regards the inability of the state to regulate BPA. WPTF recognizes this issue, but does not consider it to be a significant problem due to the fact that BPA's emissions are minimal – about 1% of electricity emissions according to calculations based on DEQ's reported emissions data, and a miniscule fraction of the state's total GHG emissions.

Because of the small scale of BPA emissions, WPTF suggests that it may be more appropriate to account for these 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. We note that BPA already voluntarily reports information to CARB to enable calculation of its Asset-Controlling Entity System emission factor. This reporting could provide the basis for calculation of emissions associated with BPA market purchases.

SB1070 should codify First Jurisdictional Deliverer but leave the mechanics of assigning responsibility for emissions associated with imports to rule-making.

If Oregon adopts a cap and trade regulation, WPTF would strongly support full linkage of Oregon's program to that of California and the Canadian provinces that participate in the Western Climate Initiative. Because of the interlinkage of the regional power system, WPTF believes that the Oregon program must be FJD to ensure a common carbon prices on regulated generators, and compatibility with evolving electricity markets. For this reason, WPTF recommends modification of SB1070 to explicitly call for a FJD approach for the electricity sector.

However, given the differences between Oregon's electricity sector and that of California, plus the ongoing evolution of the EIM, WPTF considers that additional and careful consideration of the mechanics for assigning responsibility for emissions associated with electricity imported and consumed in the state is necessary. We therefore recommend that these issues be resolved through rule-making. This timing 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.

Allocation to Electric Utilities

WPTF does not offer general comments on the Work Group questions regarding allocation to electrical utilities, other than that any such allocation should not convey a competitive advantage to utility-owned or contracted assets that participate in wholesale electricity markets. In California, electric utility consignment of allowances that were freely received is mandatory for resources that are bid into the CAISO markets. Oregon should preclude use of freely allocated allowances for compliance of emissions associated with energy that is bid into the CAISO markets.