



**COMMENTS OF PACIFICORP
ON THE REGIONAL INTEGRATION
CALIFORNIA GREENHOUSE GAS COMPLIANCE
ISSUE PAPER
September 20, 2016**

A. INTRODUCTION

PacifiCorp hereby submits the following comments to the California Independent System Operator Corporation's ("ISO") Issue Paper on Regional Integration Greenhouse Gas Compliance ("Issue Paper"). PacifiCorp appreciates the opportunity to provide comments on the Issue Paper for consideration by the ISO.

B. COMMENTS

In the Issue Paper, the ISO indicates a need to modify how the market determines which resources are serving load in various states so that the market can reflect the costs associated with compliance with the California Cap-and-Trade Program in energy prices for transactions subject to that program. The remainder of the Issue Paper largely focuses on how the market will address and accommodate the California's existing method for regulating greenhouse gases associated with serving California load. PacifiCorp appreciates the significance of this issue and agrees that, for the purposes of tracking greenhouse gases for California's program, a different approach is needed in the context of a broader organized energy market because e-Tags will no longer be submitted to support energy schedules into California. With respect to this exercise, it is critically important to the ultimate success of the development of a Regional System Operator ("RSO") that any methodology for assigning emissions to California load adhere to the principle that market participants outside of California should not be impacted by California's policies nor will they become subject to the Cap-and-Trade Program unless they are importing energy to California.

Though PacifiCorp shares the ISO's concern with how California's programs are applied in the context of an RSO, the ISO should consider state environmental policies more broadly in the context of a multi-state balancing area. The RSO will be required to accommodate more than California environmental policies—it will also need to consider all of the impacted environmental policies in states that are participating in the RSO.

Environmental policies that must be considered may include policies that are not direct carbon regulations. For example, Oregon and Washington currently have renewable portfolio standards (RPS) that require compliance through the retirement of renewable energy credits (RECs). Both states define RECs as including all of the environmental attributes associated with one megawatt-hour of renewable energy.¹ Typically, these environmental attributes are inclusive of the avoided emissions value or zero-carbon component of the renewable energy. To avoid double counting of environmental attributes, an entity may be precluded from using a single megawatt-

¹ OAR 330-160-0015(13) and RCW 19.285.030(2)

hour of renewable generation to receive credit for RPS purposes as well as a benefit under a cap-and-trade program by reporting power as zero-emitting. The Western Climate Initiative (WCI) has suggested that, in a capped jurisdiction, the avoided emissions value of a REC is zero. Under this interpretation, RECs are used for RPS compliance and have no avoided emissions value and there is no double counting if a renewable resource is accounted for as zero-emitting under a cap-and-trade program.² However, given the nature of the interconnected electric system, it is not the case that a renewable resource in a capped jurisdiction necessarily displaces resources in that same jurisdiction. It is also unclear as to how this issue will be addressed when one state's policies interact or even conflict with another state's policies. In this example, Oregon and Washington REC definitions are in tension with California requirements regarding the reporting of specified resources, which do not currently allow the reporting of null power.

In the Energy Imbalance Market (EIM), entities cannot currently bid RECs along with energy as part of the market bidding processes. Because PacifiCorp does not know beforehand which resources will be deemed delivered to California, it is not possible to bid any zero-emitting resources into the market for delivery to California without risking rendering the associated RECs unusable for RPS compliance in Oregon and Washington. In an RSO, as in the EIM, this issue may create inefficiencies and increased costs unless states work together to adopt policies that reflect the regional and integrated nature of the market.

As another example, Washington recently adopted the Clean Air Rule, which regulates greenhouse gases from point sources located in Washington State. Natural gas plants in Washington are subject to this rule and must accordingly limit their production beginning in 2017 using a 2012-2016 average as the baseline. PacifiCorp owns and operates one natural gas combined cycle unit in Washington—the Chehalis Generating Facility. Other utilities, such as Puget Sound Energy, who intend to join the EIM, also own and operate natural gas facilities in Washington. If energy from those resources are identified as having been imported into California, the emissions associated with that energy will be subject to double regulation: Once at the source by Washington and once when the energy is deemed imported to California. Entities may opt not to allow their resources to be imported into California to avoid this double regulation, thus further limiting market flexibility.

The above examples are relatively simple compared to the potential complexity if another state adopted a program regulating electricity imports but chose not to link to California's program. Since a large portion of the benefits of an RSO are expected to come with increased transfer capability, it is not optimal for entities to be limiting transfers to some states and not others. Though PacifiCorp understands that the ISO's effort is intended to be mindful of the potential need to support multiple greenhouse gas trading programs in the West, it is not clear that an organized energy market need for accurate price signals and transparency can accommodate the potential complexity of multiple state policy regimes that are similar to California's. The ISO briefly acknowledges this in the Issue Paper, that if additional programs require additional price differentiation, the number of components of the locational marginal price have the potential to become unmanageable. PacifiCorp suggests that it may not be possible for the market to efficiently reflect multiple state policy regimes. It may be simpler and more effective, in some

² *Western Climate Initiative Electricity Subcommittee Discussion Paper on Renewable Portfolio Standards, Renewable Energy Certificates, and GHG Accounting* (December 8, 2008)

circumstances, for states to modify their environmental policies to reflect the realities of an RSO and state policy interactions.

Accordingly, rather than attempting to create what is likely to be a very complex market solution to solve the near-term and relatively narrow challenge of California's accounting of greenhouse gas emissions, the ISO should engage in a broader dialogue around state policy interactions with a regional market. This dialogue should be conducted as part of broader governance discussions and should be aimed at creating a framework for aligning state environmental policy objectives and programs with state energy market objectives.

C. CONCLUSION

PacifiCorp appreciates the ISO's consideration of these comments and looks forward to working with the ISO's on these important issues.