

**BEFORE THE PUBLIC UTILITIES COMMISSION
AND THE ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION
OF THE STATE OF CALIFORNIA**

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DATE	JUL 20 2007
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Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emission Standards into Procurement Policies.

Rulemaking 06-04-009
(Filed April 13, 2006)

Order Instituting Informational Proceeding –
AB 32.

CEC Docket No. 07-OIIP-01

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
REPLY TO OREGON AND WASHINGTON**

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PUBLIC POWER AUTHORITY**

Dated: July 20, 2007

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In accordance with the July 19, 2007 Administrative Law Judge's Ruling in the captioned proceeding, the Southern California Public Power Authority ("SCPPA") respectfully submits this reply to the July 10, 2000 letters submitted in the captioned proceedings by the Oregon Public Utilities Commission ("Oregon") and the Department of Community, Trade and Economic Development of the State of Washington ("Washington"). The Oregon and Washington letters address the June 12, 2007 California Public Utilities Commission ("CPUC") and California Energy Commission ("CEC") (jointly, "Commissions") Staff Proposal for an Electricity Retail Provider Greenhouse Gas ("GHG") Reporting Protocol ("Staff Proposal").

Oregon and Washington criticize the methodology that the CPUC and CEC staffs propose to use to determine the emissions associated with California imports of electricity from unspecified Pacific Northwest resources. Oregon and Washington point out that the methodology proposed by the staffs conflicts with the methodology used by Oregon and Washington. Oregon and Washington contend that the staffs' methodology would lead to

undesirable results such as double-counting of hydropower resources. Oregon and Washington urge California to collaborate with them to develop a mutually agreeable methodology that would be used to determine emissions from unspecified resources.

As SCPPA explained in its July 2, 2007 Comment on the Staff Protocol, the staffs' proposal to use a "hybrid method" to develop a default factor for unspecified imports from the Northwest rather than the "marginal method" that would be used for the Southwest is deeply flawed and would have serious negative consequences. SCPPA urges the Commissions to collaborate with Oregon and Washington to develop an appropriate and uniform methodology for determining emissions associated with imports from unspecified resources. SCPPA expects that a mutually agreeable methodology would be likely to be much closer to the "marginal method" that the staffs propose for the Southwest than the flawed "hybrid method" that they propose for the Northwest. The revised methodology for determining emissions associated with unspecified imports from the Northwest should be used consistently for determining 1990 baseline emissions, current emissions levels, and future emissions levels.

I. BACKGROUND: THE STAFF PROPOSAL AND SCPPA'S COMMENTS ON THE DEFAULT EMISSION FACTORS PROPOSED FOR UNSPECIFIED PURCHASES FROM THE NORTHWEST.

In the Staff Proposal, the staffs proposed to use a "marginal method" to establish a default factor for unspecified purchases from the Southwest. The "marginal method" would result in a Southwest default factor 1075 lbs/MWh. Staff Proposal at 19. However, the staffs proposed to use a "hybrid method" to establish the default factor for unspecified purchases from the Northwest. The "hybrid method" would result in a default factor of 419 lbs/MWh. *Id.*

In its July 2, 2007 opening comment, SCPPA urged that the "marginal method" be used for determining the default factor for Northwest as well as for the Southwest. SCPPA pointed out that the short run marginal cost of both coal-fired and gas-fired generation is higher than the

marginal cost of hydroelectric generation in the Northwest. Under economic dispatch conditions, coal-fired and gas-fired resources tend to be the predominant source of Northwest exports to California rather than non-firm hydroelectric generation. SCPPA Opening Comment at 7.

If the marginal method were used to develop a default factor for unspecified imports from the Northwest, there would be benefits beyond being consistent with economic dispatch assumptions. Using the marginal method would reduce the potential for double counting of Northwest non-firm hydro that would otherwise be likely to occur. SCPPA Opening Comment at 9. Furthermore, using the marginal method would tend to address the concern expressed by the staffs themselves about the “cross-over” that might occur if the default factor for the Northwest were significantly lower than the default factor for the Southwest. If the “hybrid method” were used to determine the default factor for the Northwest, the default factor for the Northwest would be substantially lower than the default factor for the Southwest. That variance might incline sellers to enter into wheeling arrangements so as to be able to claim that power came from the Northwest although it was actually dispatched from the Southwest.

II. THE OREGON AND WASHINGTON LETTERS.

Oregon and Washington express the same concerns that were expressed by SCPPA about the staffs’ use of the “hybrid methodology.” Washington explains:

Pacific Northwest utilities claim their hydropower first, leaving thermal for export, while the CEC methodology claims Pacific Northwest hydro, leaving northwest thermal resources to serve native load in Northwest. A fundamental difference exists in the CEC staff model that uses non-economic dispatch of Pacific Northwest resources for serving Pacific Northwest loads. Thus, the CEC model dispatches coal first, whereas the Northwest energy industry dispatches firm hydropower (and nuclear), then non-firm hydropower to serve native loads.

Similarly, Oregon protests the staffs' assumption that much of the unspecified imports from the Northwest are from hydroelectric resources: "California's methodology assumes most of its imports from the Northwest are hydro on the basis that our thermal resources, including merchant plants, first serve Northwest retail loads. This does not reflect actual practice."

Oregon explains: "Oregon and Washington's approach subtracts claimed resources, including most firm and some non-firm hydro, from the gross Northwest system mix to produce a net (or 'residual') system mix."

Washington points out that one consequence of California using the staffs' proposed "hybrid methodology" for the Northwest would be "a good deal of double counting of hydropower." Oregon agrees and says: "Oregon and Washington's approach...avoids under- or over-counting of emissions claims."

Oregon notes that the staffs' proposed use of the "hybrid method" for the Northwest results in emission levels rates for imports from the Northwest that are "significantly different" from emission levels for the Southwest. A perverse consequence of having "significantly different" emission levels would be to provide "incentives for market participants to rearrange contracts...." Oregon explains: "Unresolved discrepancies of this magnitude raise concerns about incentives for market participants to rearrange contracts under the proposed protocol – for example, to wheel power over certain transmission paths, to sell to one region vs. another, and to arrange power sources so that they cannot be tracked."

Both Oregon and Washington recommend that California enter into interregional discussions to develop a mutually agreeable methodology for determining the emissions associated with unspecified exports to Californian. Washington says: "We believe it is desirable for California and the Northwest states to reach a mutual agreement on an appropriate

methodology for determining both historical baselines and future measurement.” Likewise, Oregon says: “We further recommend a uniform methodology for the West be developed through regional forums such as the Western Climate Initiative.”

III. THE PROBLEMS THAT ARE CREATED BY USING THE “HYBRID METHOD” FOR IMPORTS FROM THE NORTHWEST CAN BE REMEDIED BY UTILIZING A COLLABORATIVELY DEVELOPED METHOD.

SCPPA recommends that the Commissions accept the proposal by Oregon and Washington that the states collaborate on developing a methodology for assigning emissions to geographic regions. In SCPPA’s view, the likely outcome would be the development of a methodology for determining emissions associated with California imports from the Northwest that would be close to the “marginal method” that the staffs propose to use for the Southwest. Such a methodology would reflect the reality that under economic dispatch conditions lower cost resources are dedicated to native load in the region in which the resources are located. Further, it would reduce the potential for double counting of low emission resources among regions, and it would reduce if not eliminate the “crossover” problem.

IV. CONCLUSION.

For the reasons set forth above, SCPPA urges the Commissions to accept the invitation by Oregon and Washington to enter into a collaborative process to determine a mutually agreeable and consistent methodology for assigning GHG emissions to California imports of unspecified energy from the Northwest. SCPPA recommends that the Commissions revise the Staff Proposal to require the use of the collaboratively determined methodology for developing default factors for unspecified resources. SCPPA recommends, further, that the revised methodology for determining emissions associated with unspecified imports from the Northwest

should be used consistently for determining 1990 baseline emissions, current emissions levels, and future emissions levels.

Respectfully submitted,

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Attorney for the **SOUTHERN CALIFORNIA
PUBLIC POWER AUTHORITY**

Dated: July 20, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY REPLY TO OREGON AND WASHINGTON** on the service list for CPUC Docket No. R.06-04-009 and CEC Docket No. 07-OIIP-01 by serving a copy to each party by electronic mail and/or by mailing a properly addressed copy by first-class mail with postage prepaid to the party/ies indicated in the Administrative Law Judges' Ruling Regarding Comments on Staff Report Proposal dated June 12, 2007.

Executed on July 20, 2007, at Los Angeles, California.

/s/ Sylvia Cantos

Sylvia Cantos

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