

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies.

R.06-04-009

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**REPLY COMMENTS OF THE DIVISION OF
RATEPAYER ADVOCATES TO LETTERS FROM OREGON AND
WASHINGTON ON REPORTING ISSUES**

I. INTRODUCTION

Pursuant to the July 13, 2007 "Administrative Law Judges' ruling granting motions to late file comments and for party status and providing opportunity for reply comments on two letters regarding reporting issues" (ALJ Ruling), the Division of Ratepayer Advocates (DRA) submits the following reply comments on the letters submitted by the Oregon Public Utilities Commission (OPUC) and the Department of Community, Trade and Economic Department of the State of Washington (CTED) to the California Public Utilities Commission (CPUC) and California Energy Commission (CEC), both dated July 10, 2007.

According to OPUC and CTED, Oregon and Washington have developed a joint methodology for allocating emissions associated with purchases from unspecified sources. Moreover, the two states have determined that "the emissions from the 'net system mix,' or electricity available for export, to be 1,014 lbs CO₂/MWH in 2006 and

1,062 lbs CO₂/MWH in 2005.”¹ These emission figures are more than double the emission default of 419 lbs CO₂/MWH for unspecified imports from the Northwest as recommended by the Joint CPUC/CEC Staff Proposal². OPUC and CTED expressed concerns over two key issues: first, the disparate emission values for unspecified imports from the Northwest; and second, the CEC methodology that “claims Pacific Northwest [non-firm] hydro [to California loads], leaving northwest thermal resources to serve native load in the Northwest.” OPUC and CTED disputed that this does not reflect actual practice in the two states, and that the reporting protocol based on this methodology would result in double-counting of hydropower.

DRA summarizes its observations and recommendations as follows:

- ❖ The differences among Oregon, Washington, and the CEC need to be reconciled. DRA is concerned about emissions factors generated from simple load/resource balancing versus actual dispatch if that is what is occurring. Although the science may not be perfect, clearly the disparities are too great.
- ❖ Annual emission values for unspecified imports from the Northwest need not be the same for California, Oregon and Washington as the systems peak at different times and seasons. Nevertheless, from the point of view of reporting requirements and interregional trade possibilities, it may be efficient to assume the same values.
- ❖ The western states should work through the Western Governor’s Association, Western Interstate Energy Board, Committee on Regional Electric Power and Cooperation, and Western Climate Initiative to develop a common methodology to assign default emission rates to unspecified imports.
- ❖ To meet the January 1, 2008 deadline imposed by AB32, the Air Resource Board should adopt a conservative default emission rate for unspecified imports from the Northwest based on the average emission rate for

¹ Letter from the State of Washington Department of Community, Trade and Economic Development to the California Public Utilities Commission and California Energy Commission on Rulemaking 06-04-009, July 10, 2007, p.1

unclaimed resources. Alternatively, as DRA points out above a common assumption across regions could be used on an interim basis.

II. DISCUSSION

A. The default emission value for unspecified imports from the Northwest need not be the same for California, Oregon and Washington.

DRA opines that the default emission value for unspecified imports from the Northwest need not be the same for California, Oregon and Washington, especially if the default emission value is an annual number. Firstly, the electricity loads of Washington and Oregon are winter-peaking, while that of California is summer-peaking. In other words, power imports into Washington and Oregon take place primarily during the winter months, while power imports into California take place primarily during the summer months. California benefits from the surplus hydropower generated during the spring runoff when snow melts, and in the summer to the extent firm and non-firm hydro are available. Power imports into Washington and Oregon during the winter months, on the other hand, would have to rely on thermal generation.

Secondly, as discussed in the CEC Staff Paper “Revised Methodology to Estimate the Generation Resource Mix of California Electricity Imports” (March 2007), California uses a different geographic definition of the Northwest from Washington and Oregon. CEC includes the states of Washington, Oregon, Idaho, Montana and B.C. Hydro in its definition of the Northwest, while OPUC and CTED assumes all or major portions of the states of Washington, Oregon, Idaho, Montana, Utah, Nevada and Wyoming in their definition of the Northwest. The Northwest geographic boundaries as defined by the CEC and by OPUC and CTED are clearly illustrated in the CEC Staff Paper (p.25). It is apparent that power exported from B.C. Hydro is primarily hydropower, while power exports from the states of Utah, Nevada and Wyoming will be natural gas and coal generation.

Currently, the default emission rate for unspecified imports is given as an annual figure. It is foreseeable that if the emission rate for unspecified imports is calculated on a

monthly basis, the default emission rates would vary over the year, with higher emission rates during the summer months, and lower emission rates during the winter months. Having said this, this could be a reporting and administrative impossibility.

B. The Western Climate Initiative provides a venue for the western states to reach a consensus methodology to calculate the net system mix emission rate.

CTED in their letter urged “for California and Northwest states to reach a mutual agreement on an appropriate methodology for determining both historical baselines and future measurement.” In particular, the Western Regional Climate Action Initiative signed on February 26, 2007, with membership consisting of western states of California, Washington, Oregon, New Mexico, Arizona, Utah, Colorado and the Canadian provinces of British Columbia and Manitoba, has established an agenda to: (i) set an overall regional goal to reduce emissions from its member states within six months of the effective date of the agreement, (ii) develop a design for a regional market-based multi-sector mechanism to achieve the regional GHG reduction goal within eighteen months of the agreement date, and (iii) participate in a multi-state GHG tracking registry.

DRA strongly supports a common methodology across the western states to assigning default emission rates to unspecified imports. DRA hopes that the development of this methodology will be concurrent with the design of the market-based GHG reduction mechanism, with August 2008 as a milestone date. To comply with the January 1, 2008 deadline imposed by AB32 to adopt regulations for GHG reporting and verification, the Air Resources Board (ARB) can either leave a placeholder for the default emission rate for unspecified imports until the western states and Canadian provinces agree on a common methodology by August 2008, or use a conservative approach to estimate the default emission rates until a common methodology is established. As proposed in its July 10 Reply Comments, DRA recommends that the GHG Reporting Protocol calculates the default emission rate for unspecified imports from the Northwest based on the average emission rate for unclaimed resources. This calculation differs from the May 2006 CEC staff paper “Proposed Methodology to Estimate the Generation

Resource Mix of California Electricity Imports” in that resources under contract will be subtracted out from the regional resource mix. This interim default emission rate should be replaced as soon as a common emission calculation methodology is developed through the Western Climate Initiative.

As an interim measure, a common rate among regions should be considered. Since electricity is fairly fungible among regions, one problem with setting different rates for different regions is the possibility that the differences will be arbitrated away by interregional trading. Until the issues of contract shuffling and leakage are better understood, a single measure might be useful.

III. CONCLUSION

For the foregoing reasons, the CPUC and CEC should adopt DRA’s recommendations as set forth herein and incorporate them into the final reporting protocol.

Respectfully submitted,

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Dated: July 20, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **“REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES TO LETTERS FROM OREGON and WASHINGTON ON REPORTING ISSUES”** in **R.06-04-009** by using the following service:

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Executed on July 20, 2007 at San Francisco, California.

_____/s/ Imelda C. Eusebio

Imelda C. Eusebio

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