



Portland General Electric
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To: Chair Michael Dembrow
Vice-Chair Alan Olsen
Senator Herman Baertschiger, Jr.
Senator Cliff Bentz
Senator Floyd Prozanski
Senator Arnie Roblan
Senator Kathleen Taylor

Chair Ken Helm
Vice-Chair Karin Powers
Vice-Chair E. Werner Reschke
Representative Phil Barnhart
Representative Daniel Bonham
Representative Lynn Findley
Representative Paul Holvey
Representative Pam Marsh
Representative David Brock Smith

From: Sunny Radcliffe, Portland General Electric
Re: Cap and Trade Proposals (SB 1507 and HB 4001)

Senate Environment and Natural Resources and House Energy and Environment Committee Members:

Thank you for the opportunity to provide comments on the SB 1507 and HB 4001 which would establish an Oregon cap and trade program. Portland General Electric (PGE) is committed to achieving our proportionate share of the state's 2050 greenhouse gas (GHG) emission reduction goals and to working collaboratively and constructively with lawmakers and other stakeholders to develop policies that achieve significant GHG emissions reductions while keeping electricity affordable, secure and reliable.

This commitment has been demonstrated most recently by our collaboration with the environmental community, customer advocates and lawmakers to construct one of the most stringent renewable energy standards in the country – the Oregon Clean Electricity and Coal Transition Plan (2016). We also believe it is important to provide leadership where policy does not exist, which is why we signed the #wearestillin pledge stating we will do our part to help meet the United States' pledge in the Paris Climate Agreement in the absence of federal action.

PGE is not opposed to cap and trade systems. In fact, we have supported national, market-based programs for pricing GHG emissions since 2006. We see merit in providing companies with certainty and flexibility in approaching emissions reductions. We believe that the design of such programs can achieve required GHG emission reductions while protecting Oregonians and the economy from unreasonable or unnecessary cost impacts. At PGE, we understand that much of the cost of GHG reductions on our system will be borne by our customers, which is why we worked so diligently on the 2016 Clean Electricity and Coal Transition legislation which was carefully designed to enable the continued transition of our generation mix to carbon-free resources, while providing tools to manage and minimize cost impacts.

With regard to SB 1507 and HB 4001, we have been encouraged by recent conversations with legislators and advocates that there may be progress on resolving the concerns we have raised about the current program design and we hope to see that reflected in forthcoming amendments to both bills. We greatly appreciate the thoughtful and collaborative efforts of the Citizens' Utility Board (CUB) and other parties to find common ground and craft solutions that will protect our customers from unnecessary rate increases. We view recent concepts on this issue as significant steps in a very positive direction and expect that fleshing out these concepts will require additional engagement.

For the record, our concerns with regard to program design as well as proposed solutions for those issues are outlined below.

SB 1507 and HB 4001: Design Concerns and Recommended Solutions

PGE has consistently and constructively expressed our concerns with the program design since we were invited to participate in the Clean Energy Jobs workgroups in October 2017. We have also made significant efforts to suggest solutions to resolve our concerns through our written response to the Clean Energy Jobs workgroup, honest and frank conversations with Senator Dembrow, Representative Helm and other policy makers, and numerous discussions with environmental and ratepayer advocates. These concerns can be remedied through changes to the bills – changes that would still ensure a strong regulatory program, linkage to other states and a stringent economy-wide cap on Oregon’s GHG emissions. The following seven priorities should be addressed fully and clearly in any cap and trade legislation and should not be left to the regulatory process, given the critical nature of these issues.

1) All PGE customers must be protected from unfair and unnecessary rate increases.

Issue: The current proposals use a consignment mechanism and revenue-recycling design that is intended to increase customers’ electricity rates in order to send them a “price signal,” which will increase customer rates unnecessarily with no guarantee that all customers would get a rebate or that the rebate would offset increases they experience.

PGE serves nearly 2 million Oregonians – almost 50% of the state’s population – and more than 100,000 businesses that account for almost 75% of the state’s economic activity. Our customers already pay, and will continue to pay, for investments that are driving down emissions, including acquiring all cost effective energy efficiency, retiring coal plants, acquiring new energy and capacity resources, deploying renewable energy generation consistent with Oregon’s new 50% mandate, adding storage and making smart grid investments to enable a greener energy system. These costs are not insignificant. For example, residential and commercial customers currently pay almost 7% of their bills to fund energy efficiency. It is fundamentally unfair for these customers, who value clean energy, to pay for actual carbon reductions to the system through investments in clean energy and then be made to pay again for paper compliance under a cap and trade program, even when PGE is below its carbon emissions reduction line.

Solution: Electric utility customers can be protected from unnecessary rate impacts by direct allocation of allowances that may be used for compliance purposes. Full, direct allocation of allowances that declines over time consistent with our proportionate share of the state’s GHG reduction goals will protect all of our customers from unnecessary rate hikes and still provides a clear incentive for GHG reductions through the integrated resource planning process.

2) “Null power” from zero-emission generation sources like wind and solar must be deemed carbon-free for purposes of cap and trade compliance.

Issue: The current bills do not address treatment of “null power.” Null power is energy generated by a renewable resource like wind or solar that does not have the associated renewable energy certificates (RECs). Utilities with a carbon reduction obligation - and their customers who bear the costs of compliance – should not be expected to assume carbon liability for null power that utilities are obligated to take under current law and state rules. For example, PGE must take null power from Qualified Facilities (QFs) and net metering customers.

Solution: The legislature must ensure that null power from zero-emission resources is not deemed to have a carbon content for cap and trade compliance purposes. We recognize that a mechanism is needed to harmonize the REC market with a cap and trade regime. The California mechanism for null

power is acceptable as long as Oregon's bill makes clear that it encompasses all sources of null power and applies no matter what the severed REC is used for.

3) The point of regulation for imported electricity must be the same for all Oregon entities.

Issue: The bills currently specify a uniform point of regulation for imported electricity (at the load serving entity), but lets the regulatory process choose a different option. This is an improvement from earlier drafts of the bills which permitted multiple points of regulation for imported electricity depending on the type of utility but leaves substantial uncertainty.

Solution: We believe Oregon should have a uniform point of regulation for imported electricity and that this foundational issue should be determined in the legislation rather than left open to an uncertain outcome in a subsequent regulatory process.

4) All providers of electricity to customers of electric utilities must be subject to carbon reduction obligations.

Issue: The rules for Electricity Service Suppliers and any new market entrants must prevent gaming and leakage in order to protect the integrity of the program and achievement of Oregon's GHG reduction goals, given that the Oregon's carbon reduction imperative will remain even if electricity markets or utility regulation evolve.

Solution: Energy Service Suppliers must be subject to carbon reduction obligations for all emissions associated with serving Oregon load. Moreover, the bills must ensure that any provider of electricity to customers of an electric utility is held to the same carbon reduction obligations.

5) Oregon Carbon Dioxide Standard offsets generated in years covered by a new cap and trade program should be available for compliance purposes.

Issue: Our customers have already paid for offsets under the Oregon Carbon Dioxide Offset Standard, ORS 469.503, which was Oregon's first policy intended to place a price on electricity sector carbon emissions. In the transition from this early carbon pricing program to a new carbon regime, customers should receive value for the investments in carbon reduction activities they are funding. About 97% of the offsets procured for us by the Climate Trust will be generated from carbon reduction projects in the forestry and agriculture sectors, consistent with the current bills' offset program requirements. It is important to note that we are not suggesting that offsets generated in years prior to cap & trade program implementation should qualify, only those generated in 2021 or later.

Solution: All offsets funded prior to 2021 but generated in years covered by a new cap & trade program should be recognized and available for compliance purposes, subject to the offset limits in the policy. Further, the standard, which was enacted for the purpose of putting a price on GHG emissions, should sunset if a cap & trade program regulating the same emissions from fossil generation facilities in Oregon is adopted.

6) Policy design should enable transportation electrification.

Issue: The current bill drafts do not encourage transportation electrification. Clean and affordable electricity can play a useful role in reducing Oregon's transportation sector emissions. Policies should be adopted that ensure clean, renewable electricity remains an affordable energy source consistent with the goal of encouraging increased use of electric buses and cars by governments, businesses and individuals.

Solution: Allowance allocation and other policy design elements should encourage transportation electrification by preventing unnecessary rate increases, protecting utility customers against costs associated with emissions shifts between sectors, and providing a modest funding stream for charging infrastructure.

7) Policy design must ensure linkage to the Western Climate Initiative.

Issue: Current bill language risks linkage to other states in the WCI by requiring that any jurisdiction with which linkage is proposed must have “equivalent or stricter” requirements. DEQ opined that price control provisions must be the same across jurisdictions to prevent competitive advantages. California’s cap and trade program contains a price cap on allowances, the current proposals do not. Similarly, Oregon’s offset program is more restrictive than California’s. These facts suggest that California’s cap and trade is less strict than the program proposed for Oregon and thus linkage may be at issue.

Solution: The legislature should carefully study the key elements required for linkage, which may include adopting equivalent offset policies and providing for substantially similar protections against uncontrolled allowance prices.

In conclusion, we want to again express our appreciation of the efforts thus far to address these design issues and we remain optimistic that progress will be made in resolving them. If solutions are unavailing for 2018, we remain committed to working in good faith with lawmakers and stakeholders through 2018 on refining a 2019 bill.

Respectfully,



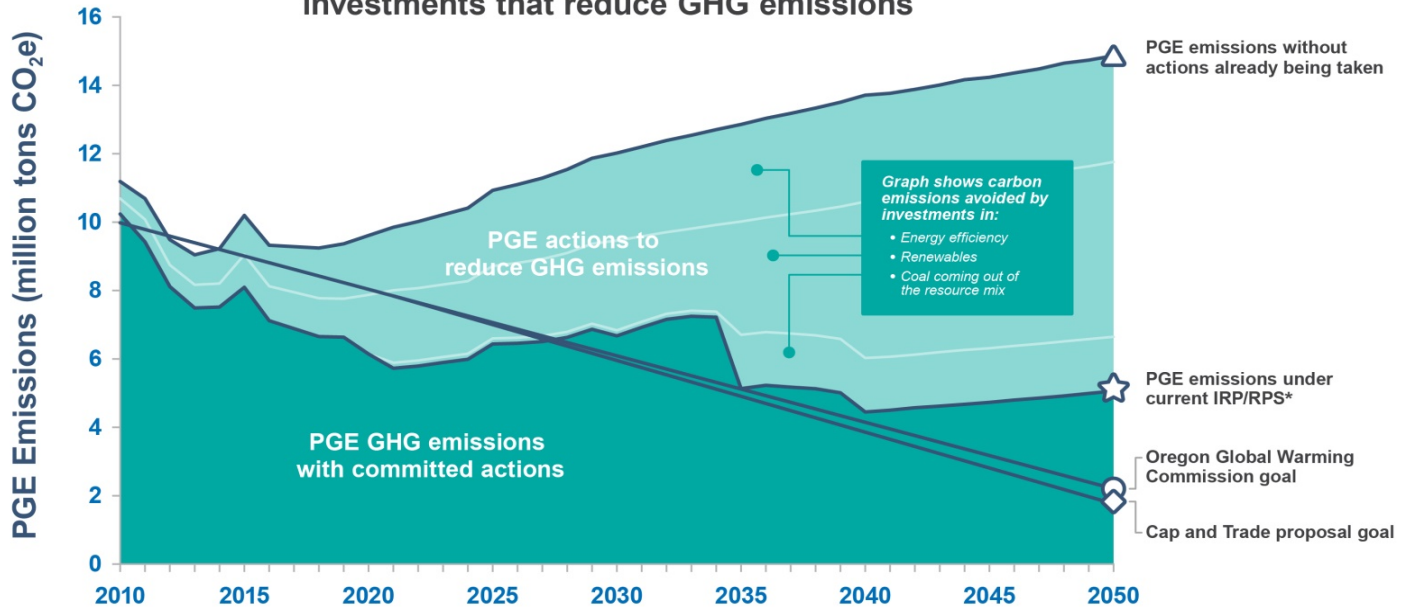
Sania Radcliffe
Director, Government Affairs and Environmental Policy
Portland General Electric



70% of PGE's energy mix will be carbon-free by 2040 through investments paid for by customers.

We are dramatically reducing our greenhouse gas (GHG) emissions through investments in wind, solar and other clean and renewable power, on top of our existing, carbon-free hydroelectric resources, and demand response, storage and grid upgrades. These investments are critical elements of a low-carbon electricity system and are reflected in customer rates. In addition, residential and commercial customers currently pay almost 7% of their bill to fund incentives for cost-effective energy efficiency and small renewables.

PGE customers are already paying for investments that reduce GHG emissions



*PGE's investments in a clean energy future are driving down emissions:

This graph represents resource choices acknowledged in our 2016 Integrated Resource Plan (IRP) including actions to meet Oregon Clean Electricity & Coal Transition Plan requirements. The graph does not reflect resource decisions yet to be made that will likely further reduce emissions resulting from advances in technology, declines in renewable resource costs, reductions in the carbon intensity of market power, and PGE's goal to meet our proportionate share of Oregon's 2050 GHG reduction goal.

Affordable, clean electricity is key to reducing GHG emissions across the energy economy.

Electricity is rapidly becoming the cleanest energy source in Oregon. By keeping electricity costs low, it will be easier and more affordable to reduce Oregon's transportation sector emissions. Policies should be adopted that ensure clean, renewable electricity remains an affordable energy source consistent with the goal of encouraging increased use of electric buses and cars by governments, businesses and individuals.

PGE customers shouldn't have to pay twice for the same GHG reductions under cap and trade.

PGE serves nearly 2 million Oregonians – almost 50% of the state's population – and more than 100,000 businesses that account for almost 75% of the state's economic activity. It is fundamentally unfair for these customers, who value clean energy, to pay for actual carbon reductions to the system through investments in clean energy and then be made to pay *again* for paper compliance under a cap and trade program, even when PGE is below its carbon emissions reduction line.

The current design of the proposed cap and trade program will cause unnecessary and unfair rate increases, adding to Oregon's growing cost-of-living issues.

The current consignment and revenue recycling proposal for investor-owned utilities is designed to send our customers a "price signal" (an increase to their rates), which is unfair because our customers already pay for investments that are making electricity cleaner and greener. There is no guarantee that rebates will offset rate increases or that all customers will even receive one, which means some customers may win but many will lose.

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Critical design changes to Oregon Cap & Trade proposals are needed



Protect all PGE customers from unfair and unnecessary rate increases

Potential rate increases without direct allocation of allowances: Rate increases were calculated as increases to PGE's 2018 rates using California Energy Commission's 2016 Low and High GHG Allowance Price Projections.

Residential Rate Increases

2021: 4.7% - 6.6%
2025: 6.5% - 13%
2030: 8.7% - 27%

Commercial Rate Increases

2021: 5.5% - 7.7%
2025: 7.6% - 15.1%
2030: 10.1% - 31.5%

Industrial Rate Increases

2021: 7.3% - 10.3%
2025: 10.1% - 20.2%
2030: 13.5% - 42.0%

ISSUE	SOLUTION
Current allowance allocation provisions would make customers pay twice for the same emission reductions, once for clean energy investments and again for the cost of permits, driving up rates for all customers and providing rate relief to only some.	PGE should be given full, direct allocation of allowances for compliance. PGE's compliance allowance budget should be directly distributed with no cost to customers, consistent with our proportionate share of the state's 2050 GHG reduction goal that declines over time.
There are no direct incentives for transportation electrification, even though the transportation sector is 40% of state's GHG emissions and electric vehicles powered by cleaner energy can help drive down emissions in that sector.	Allowance allocation should encourage transportation electrification by preventing rate increases, protecting customers against costs associated with emissions shifts between sectors, and providing a funding stream for electrification.
As drafted, Oregon's program is more stringent than California's, which could prevent linkage. California's cap and trade program contains a price cap on allowances and Oregon's does not. In addition, California's offset program is less restrictive than Oregon's.	The bill design must ensure linkage to the Western Climate Initiative. This likely means adding a price cap and adopting equivalent offset policies.
Treatment of "null power" isn't addressed in the bill. PGE must take null power (carbon-free power from renewable resources that do not have the associated REC) from qualified facilities and net metering customers. Utilities under cap and trade and their customers who bear the compliance costs should not assume GHG liability for null power they are obligated to take under current law.	"Null power" must be deemed carbon-free for cap and trade compliance purposes. The California mechanism for treating null power is acceptable as long as Oregon's bill makes clear that it encompasses all sources of null power and applies no matter what the severed REC is used for.
Current bill language on the point of regulation is flawed. It allows for the regulatory process to choose a different option than what is defined in the bill.	The point of regulation for imported electricity must be the same for all Oregon entities and determined explicitly in the bill, not through rulemaking.
Protection against leakage is not adequately addressed. Electricity Service Suppliers and any other parties who assume the load of regulated utilities must be included in cap and trade as regulated entities.	Bill language should make clear that <u>all</u> providers of electricity to customers of regulated utilities have the same obligations under the program in order to prevent gaming and ensure Oregon's carbon reduction goals are met. (No 25,000 ton threshold for these entities.)
Offsets paid for by customers under the Oregon Carbon Dioxide Standard cannot be used for compliance. PGE customers pay for offsets under this standard, which was enacted to put a price on GHG emissions, and would continue to do so under the current cap and trade bills.	Oregon Carbon Dioxide Standard offsets generated in years covered by a new cap and trade program must be available for compliance purposes. The standard should sunset if cap and trade regulates the same emissions.

California data shows direct regulation, like the RPS, has delivered the most GHG reductions.

California Air Resources Board projects cap and trade will yield only 7% of California GHG reductions through 2020. A majority of California's GHG reductions have come from the electric system and almost entirely because of direct regulation:

- **2016 electricity sector emissions declined by 17.4 million metric tons.**
- **2016 transportation emissions increased by 1.8 million metric tons.**
- **2016 refining sector emissions increased by 1.2 million metric tons.**

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