UMATILLA ELECTRIC COOPERATIVE
A Touchstone Energy® Cooperative

April 1, 2019

Representative Karin Power, Co-Chair
Senator Michael Dembrow, Co-Chair
Joint Committee on Carbon Reduction
Oregon State Capitol
900 Court Street NE
Salem, OR 97301

RE: Amendment 53 to HB 2020

Dear Co-Chair Power, Co-Chair Dembrow, and Members of the Joint Committee on Carbon Reduction:

Umatilla Electric Cooperative (UEC) is a member-owned business that sells energy, invests in and supports other services to improve the quality of life in our communities. UEC serves a large portion of the Columbia Basin and Blue Mountain country of Northeastern Oregon. The cooperative's territory is located west of Boardman in Morrow County and covers much of Umatilla County surrounding the cities of Hermiston and Pendleton and into the Blue Mountains. UEC is experiencing tremendous economic and load growth in eastern Oregon as a result of growing commercial and industrial development. The current treatment of "representative years" for emission allowances in HB 2020 penalizes economic development in Eastern Oregon.

HB 2020's representative three-year "look back" for calculating emission allowances does not take into consideration forecasted load growth. For UEC, the economic growth in the region has a forecasted load growth to be nearly double the "look back" average upon implementation of the carbon program and nearly tripling by 2028. As a result, UEC will have less than 100% of the necessary allowances for that load growth in the first year of the carbon program and will likely have to purchase additional allowances on the market as well as in the subsequent years until our load stabilizes around 2028. With the uncertainty of increased emissions associated with load growth and the potential premium for carbon-free resources under the cap and trade regime, this exposes UEC's members to potential rate shock. I've submitted a graph on OLIS that shows UEC's forecasted load growth so you can visualize the problem that is not mitigated in HB 2020.

A second concern not covered in the bill is that consumer owned utilities (COUs) already subject to or who will be subject to RPS compliance obligations should not be forced to pay two compliance costs for the same kilowatt of energy. UEC is subject to a 5% compliance obligation in 2022, 10% in 2028, and 25% in 2032.

The Dash 53 addresses both concerns. The first concept establishes an electricity price forecasted growth reserve of allowances that may be distributed when necessary to protect electricity ratepayers from cost increases associated with increases in regulated emissions due to forecasted load growth. The details are to be worked out in rulemaking; however, the agency would hold the allowances and the utility would have to "true up" with data, to be entitled to additional direct allowances. This way there is no windfall to the utility, but it does provide a mechanism to protect against rate shock.

The second fix would develop a methodology in rulemaking that would ensure utilities are not paying the two separate compliance costs, one for the RPS and the other for the cap and trade, for the same kilowatt of energy.

750 W. Elm Street • PO Box 1148 • Hermiston OR 97838

Phone: (541) 567-6414 **Fax: (541) 567-8142** **Toll Free: 800-452-2273**

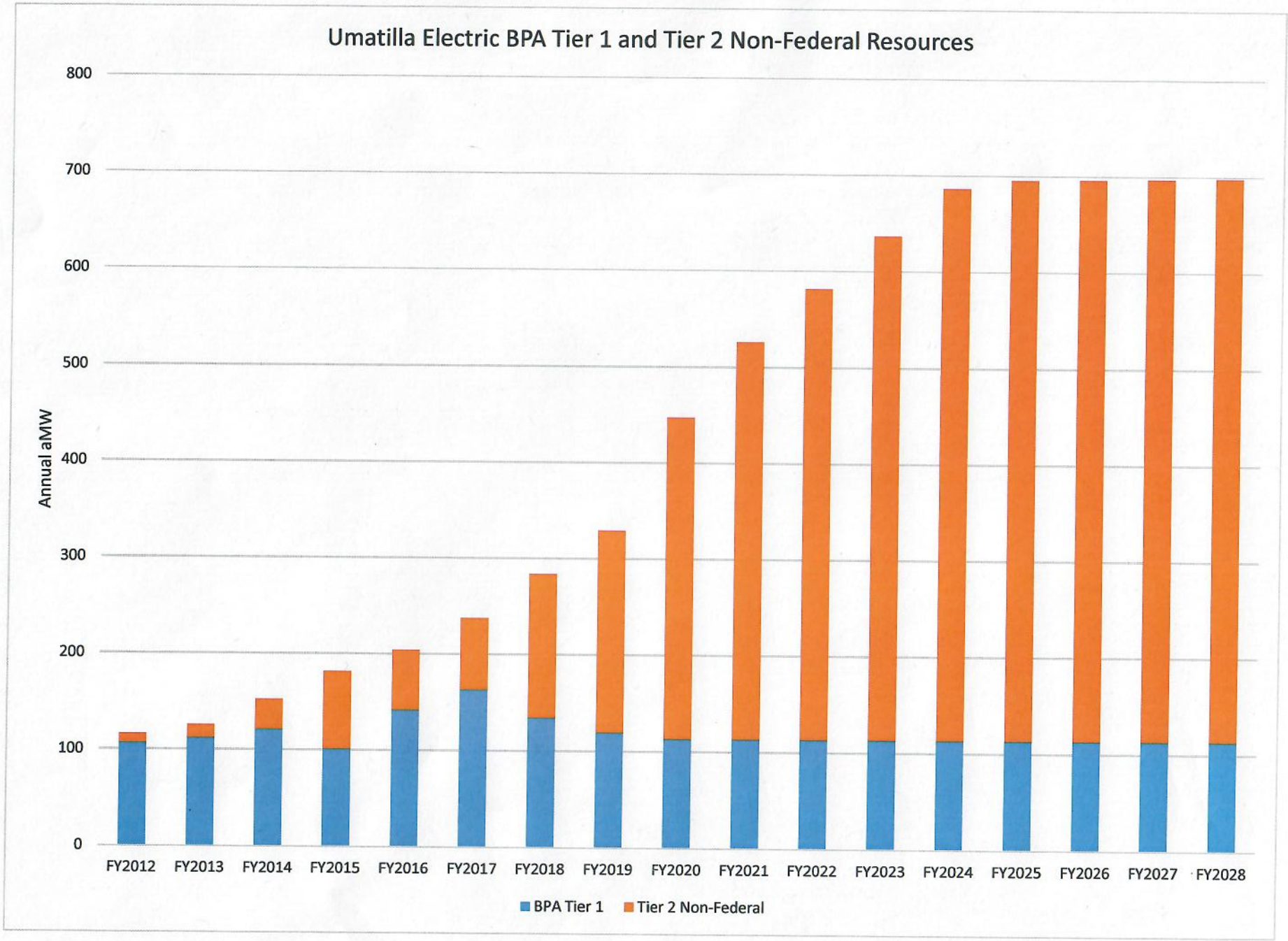
We asked Dallas Burtraw, Darious Gaskins Senior Fellow with Resources for the Future, to "kick the tires" and provide his thoughts on our concepts. A copy of his letter is in OLIS but we wanted to highlight a couple of his comments. For the allowance reserve for rate shock, he notes that *"extraordinary changes in electricity demand associated with economic growth may likewise be beyond the control of the system manager and impose pressure on electricity prices that exceed the ability of the already prescribed direct distribution of allowances to modify electricity price increases."* Mr. Burtraw also comments *that "an argument can be made that the allowance reserve could become available to electricity companies if retail rates rise in one service territory in a disproportionate way due to economic growth."*

For the RPS proposal, Mr. Burtraw states *"I feel that if electricity providers subject to an RPS are also subject to cap and trade regulations, there may be a justification for accounting for the purchase of RECs in determining the compliance obligation with cap and trade."*

Mr. Burtraw does say that policy design could be difficult, but that doesn't make it impossible. For the reserve account, additional allowances would only become available if rates dramatically rise, with a process to be developed in rulemaking. For the accounting for the purchase of RECs, a formula may work, or another mechanism could be developed to offset the double compliance cost.

UEC appreciates the Carbon Policy Office and Committee's continued work on the Dash 53 amendment and urge your strong support of the amendment.

Alec J. Shebiel, UEC Government Affairs, 541-215-7835, alec.shebiel@umatillaelectric.com


Umatilla Electric BPA Tier 1 and Tier 2 Non-Federal Resources
800
700
600
500
400
300
200
100
0
Annual aMW
FY2012
FY2013
FY2014
FY2015
FY2016
FY2017
FY2018
FY2019
FY2020
FY2021
FY2022
FY2023
FY2024
FY2025
FY2026
FY2027
FY2028
BPA Tier 1
Tier 2 Non-Federal

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March 17, 2019

Alec J. Shebiel
Government Affairs
Umatilla Electric Cooperative

Dear Alec,

I am writing in response to two issues raised by Umatilla Electric Cooperative about the allocation of emissions allowances under HB 2020. These thoughts reflect my understanding of the program design, but my understanding may be incomplete. This letter is for information purposes and is not intended as a lobbying effort.

The first issue concerns the basis for calculating free allocation, and the expected substantial growth in electricity demand through the next decade.

The legislation intends to distribute allowances directly to electric system managers based on electricity demand forecast for 2021, calculated based on representative years. Umatilla Electric Cooperative anticipates sharp growth in demand that is a departure from trend due to economic development in its territory. Consequently, the Cooperative feels the years 2018-2020 cannot be considered representative of 2021. In the spirit of the legislative language, an amendment might be considered that identified a different way to estimate expected emissions for 2021.

After 2021, because of its special situation, Umatilla Electric Cooperative, faces a possibility of an unintended and disproportionate increase in retail electricity rates. It is unclear that this will necessarily occur given the steady decline in generation costs in the industry. Nonetheless, HB 2020 provides already for the potential distribution of allowances from an electricity price containment reserve to mitigate cost increases associated with emissions changes that are outside the control of the electricity system manager, including for example hydroelectric power variability (section 15.5). Extraordinary changes in electricity demand associated with economic growth may likewise be beyond the control of the system manager and impose pressure on electricity prices that exceed the ability of the already prescribed direct distribution of allowances to modify electricity price increases. Consequently, an argument can be made that the allowance reserve could become available to electricity companies if retail rates rise in one service territory in a disproportionate way due to economic growth. Design of this policy could be difficult, and implementation difficult to monitor. I would argue that the hurdle for access to the reserve should be high and allowances from the reserve in a given year should be accessed only if retail prices in the previous year rose by a substantial percent.

The second issue concerns the interaction of the renewable portfolio standard and cap and trade.

Electricity providers (distribution companies) in Oregon that are subject to the renewable portfolio standard (RPS) are obliged to obtain renewable energy credits (RECs) to cover a specified percentage of electricity delivered to the market. RECs are credits that generators receive for units of electricity generated from renewables. Often RECs are unbundled from delivered electricity and are sold separately for compliance with RPS programs in another jurisdiction, or in the "voluntary" market to enable companies to achieve commitments to reduce their carbon footprint, or to green energy retail providers that sell a clean portfolio of power to businesses and households. In many cases, Oregon entities that face an obligation under the RPS program purchase RECs that are unbundled from the renewable power. In these cases, protocols in the REC markets ensure that the RECs are used only once. In my view, the energy associated with the unbundled RECs cannot be properly described as zero-emissions energy because that attribute has already been monetized and sold separately. If the power from the renewable energy resource were described as zero-emissions but its REC had been sold and used in another market, then the zero-emissions attribute of the renewable power would be double credited. Consequently, renewable energy that has sold off its RECs is sometimes described as having "null" emissions attributes and for compliance purposes its emissions intensity (tons/MWh) is assumed to equal the average for the market. This applies specifically for power purchased from out of state, but not power purchased in state because obligation for compliance under the cap-and-trade program for in state sources rests with those sources, not the electricity provider.

In my view, if imported power is assigned a renewable emissions factor (counted as a renewable delivery) and thereby avoids a cap and trade obligation, then a REC should be required to be imported with the imported power. From an interstate perspective, this avoids a situation where that REC is used in a different state for a renewable energy and zero-emissions power delivery claim, e.g. under an RPS, a carbon-free power program, or a voluntary RE program. In order to avoid potential double counting of the *nonemitting attribute of renewable energy* at a regional level, imported electricity from renewable sources should be assigned the null emissions rate if that electricity does not come with an associated REC. However, this is not the approach proposed in Oregon in HB2020 (Section 9(4)(b)), or the approach taken in California, where imported renewable power is considered nonemitting without requiring an associated REC that would be surrendered in the RPS program. Realistically, Oregon is not in a situation to correct this problem because the state is a relatively small player in the regional power market; perhaps one day this issue can be corrected at a regional level. In the meantime, double counting of the zero-emissions attribute of renewable power may occur in the region.

The converse aspect of this issue may be relevant to Umatilla Electric Cooperative. I feel that if electricity providers subject to an RPS are also subject to cap and trade regulations, there may be a justification for accounting for the purchase of RECs in determining the compliance obligation with cap and trade. The compliance obligation in the cap-and-trade program for power that is purchased from out of state accrues to the purchaser of that power, which often will be an electricity provider that also has an obligation to purchase RECs. If there is no attempt at aligning these obligations, the *emissions* associated with imported power might appear to be counted twice: once through the required purchase of RECs, and once based on its emissions characteristics in the cap-and-trade program. That is, an energy provider that imports power might be concerned that it has an obligation to surrender RECs for that power, but because the power is from the wholesale market it is assigned a null emissions factor under

the cap-and-trade program and consequently also brings an obligation to surrender allowances in the carbon market.

An adjustment to the calculated emissions associated with imported power might be legitimate if the energy provider has purchased RECs to cover those emissions. However, that adjustment would not ton-for-ton. Unlike cap and trade, the obligation for compliance with the RPS is not based on tons of emissions. Instead, the RPS requires distribution companies to surrender a number of RECs equal to a percentage (X%) of MWh of electricity delivered to the market. The percentage (X%) that is enough for RPS compliance implies that the remainder ((1-X) %) of electricity sales do not have renewable characteristics and have a compliance obligation under cap and trade under this reasoning.

There are several other considerations to the potential adjustment of the compliance obligation for imported power. The RECs associated with imported power will differ from the price of cap and trade emissions allowances, so entities may have an incentive to import power and buy RECs to attempt to avoid their cap and trade obligation, thereby undermining the emissions goals under cap and trade. Consequently, if consideration is given under cap and trade for the purchase of RECs associated with imported power, a limit might be placed on the number of REC credits that can be used to reduce an energy providers' cap and trade obligation. It seems to me that potential adjustment should be based on the RPS and the implied REC obligation for imported power, and should not be more than that. Further, it may not be advisable to implement this adjustment by reducing the compliance obligation of the electricity importer because that may have an implication for Oregon's potential future ability to participate in a regional carbon market. Instead, if such an adjustment were to be considered, it might be advisable to do so with an allowance allocation.

Finally, I understand the electric cooperatives do not assume a compliance obligation for all their imported power because suppliers including the Bonneville Power Authority in some cases assume that obligation. If this is correct, the amount of imported power that is a candidate for this potential adjustment may not be very large.

I hope these ideas are helpful to your thinking on the subject.

Dallas Burtraw
Darius Gaskins Senior Fellow
Resources for the Future

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