

October 22, 2018

VIA ELECTRONIC SUBMISSION

Clerk of the Board
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments of PacifiCorp on the September 4, 2018 Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation and the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions

PacifiCorp respectfully submits these comments on the September 4, 2018 proposed amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation (Cap-and-Trade Program) and the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (MRR).

PacifiCorp does not own or operate emitting resources in California and is subject to the Cap-and-Trade Program and MRR solely as an electricity importer: PacifiCorp imports energy into California through service to its California retail load, bilateral wholesale sales, and the Energy Imbalance Market (EIM). PacifiCorp's comments are provided in two parts: one from its perspective as an electricity importer via the EIM and one from its perspective as a Multi-Jurisdictional Retail Provider (MJRP) serving retail load in California.

I. Energy Imbalance Market Comments

PacifiCorp continues to have significant legal and practical concerns with California Air Resources Board (ARB) regulation of secondary dispatch emissions, which result from activity entirely outside of California and with only a causal link to California load. While these concerns have not changed, they are not restated here and rather PacifiCorp's focus is on the proposal to impose a compliance obligation on California entities to account for secondary dispatch emissions in the EIM. There are three primary concerns with the ARB's proposal: 1) it unfairly imposes an overstated compliance obligation on California entities for the activity completely outside of their control; 2) it presents a one-sided picture of the emissions impact of the EIM; and 3) it further exacerbates the discrepancy between the treatment of secondary dispatch emissions in the EIM and the bilateral market. Each of these issues is addressed in turn below.

a. At Minimum, ARB Should Wait to Impose a Compliance Obligation on EIM Purchasers Until the Impact of Changes to the California Independent System Operator (CAISO) Resource Attribution Can Be Assessed

The quantity of secondary emissions occurring in the EIM during any five-minute interval depends on the resource attribution method employed by the CAISO to identify the resources that are imported into the CAISO balancing authority area as well as the combined effect of

resource needs and market behavior of all EIM Entities. While EIM Entities establish and schedule their resources, they do not have control over the ultimate dispatch nor do they control the resources that are deemed delivered to California by the CAISO. EIM Purchasers, as proposed to be defined by the ARB, do not have the ability to influence the scheduling and resource needs of EIM Entities. A policy that imposes an obligation on entities for behavior and activities that are happening wholly outside of California and over which they have no control is unfair and punitive. In particular in light of the CAISO's efforts to reduce the quantity of secondary dispatch emissions in the EIM, the imposition of an incremental compliance obligation on specific California entities in this context simply amounts to a penalty. PacifiCorp recommends that the ARB maintain its current approach at least until it can evaluate the effect of changes made by the CAISO to reduce secondary dispatch emissions in the EIM.

b. EIM Purchasers Should Receive an Allocation of Credit for Emissions Reductions Occurring Outside of California

If the ARB is going to apply a compliance obligation to entities in California for emissions and activity occurring across the West, it should seek ways to credit those entities for emissions reductions occurring across the West that may have a causal connection to California's participation in the EIM. Enabled in part by the EIM, PacifiCorp re-operationalized its owned generation fleet in 2016, leading to significant emissions reductions. This trend has sustained through 2018 with a reduction of approximately five million tons of carbon dioxide per year, when measured against a five year average. These emissions reductions would not have been possible without California's participation in the EIM. However, while overall PacifiCorp emissions have decreased significantly, PacifiCorp's California Cap-and-Trade compliance obligation has increased over this same time period due to increased energy exported to California via the EIM. This creates the overall impression that California's participation in the EIM has had a negative impact on overall greenhouse gas emissions when in fact the opposite is true.

Presumably, if the emissions reductions described above occurred inside California or if the entire West was under an emissions cap, entities with a compliance obligation would receive "credit" for the reductions by virtue of being responsible for fewer emissions. This is the fundamental concept of a cap: that entities under it have the ability to reduce their obligation by reducing emissions. The ARB's approach to regulating secondary dispatch emissions ignores this fundamental. If the ARB is going to apply an obligation to California entities for emissions outside of California over which they have no control, it should also seek ways to credit entities with corresponding emissions reductions occurring outside of California that may have a causal connection to California's participation in the EIM.

c. ARB's Proposal Further Exacerbates the Different Treatment Between the EIM and the Bilateral Wholesale Energy Market

Secondary dispatch emissions is not a phenomenon isolated to the EIM. Any specified sale of zero-emitting energy made to a counterparty in California may have cascading effects on energy

transaction and load-service decisions made across the West. California's policy preference for zero-emitting resources creates an economic incentive to sell zero-emitting energy to California and to sell emitting energy elsewhere or use it for load-service outside of California. Similar to the EIM, entities in California most likely have little or no insight into the manner in which entities selling non-emitting specified resource energy serve their load or otherwise sell their emitting energy. Similar to the EIM, PacifiCorp would argue that the ARB's jurisdictional reach does not extend beyond its borders to decisions made entirely outside of California. Rather than representing a unique phenomenon, the EIM merely provides more transparency and a market operator able to calculate a secondary dispatch emissions quantity. This differential treatment could disincentivize EIM participation, which as discussed above has been instrumental in reducing overall emissions across PacifiCorp's system. PacifiCorp recommends that the ARB align treatment for the EIM and the bilateral wholesale market.

II. MJRP Comments

PacifiCorp is a multi-state utility that provides retail electric service to approximately 1.8 million retail customers located in California, Idaho, Oregon, Utah, Washington and Wyoming. In California, PacifiCorp serves approximately 48,000 customers in Del Norte, Modoc, Shasta and Siskiyou counties. PacifiCorp is not a part of the CAISO balancing authority area. Rather, PacifiCorp operates two balancing authority areas (PacifiCorp West (PACW) and PacifiCorp East (PACE)) that span its six-state service territory, including California. As an MJRP under MRR, PacifiCorp's compliance obligation is calculated by developing a system emission factor for PacifiCorp's entire system including imports and exports. The system emission factor is multiplied by PacifiCorp's load to determine its compliance obligation. Given this unique situation, the ARB's proposal with respect to EIM Purchasers creates two issues, described below.

a. Secondary Emissions Associated with PacifiCorp's California Load Service Are Already Accounted For in the System Emission Factor

EIM transfers used to serve PacifiCorp load in California are imported to PACW or PACE from adjacent EIM Entity balancing authority areas. The CAISO does not create a resource specific-attribution for energy delivered to PacifiCorp balancing authority areas via the EIM. For purposes of developing PacifiCorp's Cap-and-Trade compliance obligation, EIM transfers to PACW and PACE are considered unspecified purchases. Accordingly, a compliance obligation is assessed for these transfers based on California's default emissions factor. Due to this approach, concerns regarding secondary dispatch emissions are not the same for EIM transfers to PACE or PACW as those related to EIM transfers to the CAISO balancing authority area. Through the application of the default emissions factor, PacifiCorp's California customers are already fully accountable for any secondary EIM dispatch emissions that may occur outside of PACW and PACE. Due to this, PacifiCorp should not have a compliance obligation, nor lose any allocated allowances, to account for secondary EIM dispatch emissions for EIM transfers to the CAISO balancing authority area. Treating PacifiCorp as an EIM Purchaser would unfairly penalize its California customers by making them pay twice for the same emissions.

- b. The Default Emissions Factor Should Apply to EIM Energy Transfers From PacifiCorp's System to the CAISO Balancing Authority Area When Calculating PacifiCorp's System Emission Factor*

Specified sales, including energy transferred to the CAISO balancing authority from PacifiCorp's system via the EIM, are subtracted from PacifiCorp's system emission factor when determining PacifiCorp's Cap-and-Trade compliance obligation. This means that specified sales to California via the EIM that are zero-emitting have the effect of increasing the compliance obligation associated with PacifiCorp's California load. This increase translates to increased costs for PacifiCorp customers. Under the ARB's current proposal, the default emissions factor will be applied to these energy transfers. PacifiCorp requests that these specified sales be reflected in PacifiCorp's system emission factor calculation consistent with this treatment.

Regards,

/s/

Mary Wiencke
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& Transmission Policy