



**Portland General Electric Company**  
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January 22, 2009

Mr. Angus Duncan  
Chairman  
Oregon Global Warming Commission  
Salem, OR 97301

Dear Chairman Duncan and fellow commissioners:

We write to express our concerns with the proposed WCI resolution that is scheduled to be considered by the full Commission today. We truly appreciate the many efforts the Energy/Utility/Stationary Source Committee members have made over the last several weeks to address PGE's concerns with the language of this resolution. Unfortunately, the resolution before the Commission continues to endorse a WCI process that remains flawed and not in the best interest of PGE's customers.

We have long supported a cap and trade system at the federal level. We feel this offers a better opportunity to achieve real reductions in greenhouse gases at a reasonable pace with acceptable rate impacts to our customers. We are encouraged that the new Administration and the Congress have made it clear that it will be a priority to address this issue early on. Much can be done at the state level to complement such a program and to ensure Oregon is well positioned to move toward a low carbon economy. The concepts forwarded by the Renewable Energy Working Group and the Energy Efficiency Working Group, which were discussed by this Commission in prior meetings, could form the basis for immediate state-driven leadership to reduce greenhouse gases. A state or regional cap and trade system, however, is problematic because of the inherent difficulties in ensuring a consistent and level playing field between states.

We have attached copies of PGE's memo to Governor Kulongoski on the WCI process from September of last year, as well as a more recent joint utility statement on climate issues to which PGE was a contributor. These two documents explain in greater detail our many concerns on moving ahead with a state-driven cap and trade system in the current WCI context.

Sincerely,

Peggy Fowler  
co-CEO and President

Jim Piro  
co-CEO and President



COORDINATED UTILITY POSITION ON  
CLIMATE ISSUES FOR THE 2009 LEGISLATIVE SESSION

- 1) We support reducing greenhouse gas emissions through programs that include emissions reporting, energy performance standards, increased energy efficiency programs, demand reduction programs, transmission and distribution improvements, electric vehicles and carbon offset programs.
- 2) We believe that the Oregon legislature should direct the Oregon Public Utility Commission and the local governing boards of the consumer-owned utilities to achieve real reductions, at a reasonable pace, with acceptable rate impacts. These carbon reduction actions should be considered as early actions under federal cap and trade legislation.
- 3) Any carbon tax or cap and trade established for the reduction of GHG should be enacted at the federal level. Only a federal system will ensure state-to-state parity when it comes to economic effects and will avoid many of the technical and legal problems inherent in a regional system.
- 4) Oregon utilities oppose legislation to direct the Department of Environmental Quality to develop a cap and trade program that links to the Western Climate Initiative.
- 5) Utilities cannot support the Western Climate Initiative proposal as currently drafted. The WCI process is incomplete. It does not address a number of fundamental objections.



Portland General Electric

**MEMORANDUM:**

**TO:** Governor Kulongoski  
Chip Terhune  
Brian Shipley  
Dave Van't Hof

**FM:** Dave Robertson

**DA:** September 5, 2008

**RE:** PGE WCI Thoughts

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Thank you for meeting with us to discuss PGE's perspectives on Oregon's energy future and our concerns about the Western Climate Initiative. We appreciate your commitment to addressing climate change and share your belief that the state must get on the path to achieving real greenhouse gas reductions. Much can be done to reduce emissions and to prepare for a carbon-constrained world. Indeed, we think it is essential that Oregon enact provisions in the 2009 legislative session that will enable our citizens and our businesses to make this transition smoothly and at the lowest cost possible.

While we remain convinced that cap and trade is best done at the federal level, we recognize that a well-designed regional cap and trade program, as part of a full spectrum of complimentary measures designed to reduce greenhouse gas emissions, could prove to be a useful tool for achieving emissions reductions in the West. However, the WCI Draft Design has such significant flaws that PGE would not be able to support it in its current form. Our specific concerns with the program design are detailed below.

**DESIGN FAILS TO CREATE A LEVEL PLAYING FIELD**

First and foremost, a regional cap and trade program must create a common reduction goal and a common set of market rules. The WCI Draft Design encourages just the opposite, however, by allowing individual states to set fundamental market rules on a state-by-state basis. Creating market rules on a state-by-state basis will impose unequal carbon costs on utilities and other regulated entities solely on the basis of entities' locations within the WCI region. Perhaps more importantly, the actions of any one state could create market distortions that will affect carbon and power markets throughout the West. We need only look to the western power crisis to see the profound effects that one state's energy policy decisions had on power markets, utilities and customers throughout the West. The WCI Draft Design suggests that the Partners may consider harmonizing rules for some sectors at some point after the program is implemented. However, this harmonization, and the hard work of setting common rules on allowance allocation, percentage of allowances to be auctioned, cost-containment and other key program design features, must occur before program implementation in order to avoid the possibility of market distortion and potential manipulation.

Reduction Goals: Each WCI partner state must have the same reduction target under the cap and trade program. The current proposal does not provide a common goal; instead the partners have created an aggregate regional goal from individual state goals that were not adopted with a larger, regional context in mind. Without serious debate as to the consequences, the WCI framework requires Oregon to achieve an emissions reduction target under the cap and trade program that is significantly higher than most of the other partners' targets. This bootstrapping of an aspirational state goal into the WCI framework imposes a real, unfair and unreasonable burden on Oregon citizens and businesses – both in terms of per capita costs and as a percentage of state gross domestic product. A truly regional reduction program should not impose widely varying reduction requirements on similarly situated entities based solely on the state in which they reside. Disparate reduction requirements encourage those who are capable of

moving to a more favorable jurisdiction to do so, and unfairly burden and disadvantage those who cannot.

Apportionment and Allocation: The Draft Design does not propose a specific methodology for apportioning allowances between states and provinces, or allocating allowances within the partner jurisdictions. However, we must note again the importance of Partners' setting clear and consistent program rules for the WCI as a whole. We strongly oppose the recommendations to allow individual state partners to set fundamental market rules on a state-by-state basis. This is particularly important in the utility sector where an interconnected system and regional power markets continuously move power across state lines.

Despite the obvious political challenges, the Partners should agree in advance of program implementation on allocation methodologies and auction percentages. PGE believes that utility sector allowances should be allocated at no cost to rate regulated utilities on the basis of their historic emissions to help mitigate cost increases on customers. We further believe that auctions, at least in the early years, should be limited to 3 to 5% of the available allowances. Requiring rate regulated utilities to purchase allowances at auction needlessly increases the costs of program compliance for utility customers.

Retirement of Allowances: PGE strongly opposes giving Partners the discretion to retire allowances. This would allow a single jurisdiction to unilaterally lower the cap for the entire WCI since those allowances – which are fungible across the WCI - would no longer be available for compliance. It would also have the effect of empowering a single jurisdiction to drive up the market price of allowances for market participants across the WCI because allowance retirements will increase scarcity. Because these impacts would affect regulated entities across the entire WCI, the Partners should reconsider and reject the proposal to allow individual jurisdictions to retire allowances.

#### **COST CONTAINMENT PROTECTIONS ARE NOT INCLUDED**

It is essential that the WCI minimize the risks of market dysfunction and soaring carbon and power prices. PGE has urged the WCI to include a “safety valve” provision to protect consumers and the wider economy from design flaws and price spikes that may result from a new and largely untested carbon emissions market. A provision that caps emission allowance prices under extreme economic conditions would limit cost impacts on the economy and would provide the cost-certainty that will allow regulated entities to make better long-term planning decisions. This also serves to protect consumers from price shocks that can result from unchecked market manipulation and speculators. Unfortunately, the WCI Draft Design contains no such provision.

#### **POINT OF REGULATION WORKS FOR CALIFORNIA BUT NOT FOR THE NORTHWEST**

PGE opposes using the first jurisdictional deliverer (FJD) approach as the point of regulation for the utility sector. Unfortunately, this is the approach included in the latest WCI Draft Design, largely at the urging of the California utilities. FJD would require substantial changes in regional markets in order to identify power purchases by specific generation facility. This is extremely problematic for the Northwest where our markets operate on system sales. A system sale is a sale made from a group of generating resources or the seller's entire system. By utilizing system sales, the utility can back up the sale with other resources should a specific unit trip off line, avoiding interruption of energy deliveries. This has important operational, market efficiency and reliability benefits for the region. FERC recently recognized the importance of system sales for our region when it granted Northwest utilities an exception to a new federal rule requiring sellers to track deliveries from the source (generator) to the sink (end-user). While we appreciate the WCI Partners' concern with addressing emissions from non-jurisdictional generating resources, we believe the risks, costs and difficulties associated with implementing FJD are too great and that the WCI should adopt a generator point of regulation for the utility sector. The generator point of regulation has the additional benefit of being consistent with the federal cap and trade system that will eventually succeed our regional initiative.

#### **OFFSETS ARE LIMITED UNNECESSARILY**

PGE has objected to the Draft Design's limitation of offsets for regulatory compliance. The essential purpose of a cap and trade program is to reduce greenhouse gases at the lowest possible cost. Limiting the quantity of

offsets that may be used to meet a compliance obligation and limiting the locations from which they can be sourced serves only to increase compliance costs for regulated entities like PGE, and at the end of the day, to increase costs for our customers. WCI should allow unlimited offsets and should focus on the quality of offset projects rather than their provenance.

#### **SCOPE – LARGEST EMITTING SOURCES ARE LEFT OUT**

PGE objects to the delay in the inclusion of transportation fuels and residential and commercial fuels under the cap until 2015. Every sector that contributes to the problem must contribute to the solution, as quickly as possible, so that we can achieve the reductions that scientists say are necessary. Therefore, all of these fuels should be included within the cap from the start of the program, not phased in over time.

#### **FEDERAL REGULATION – NO TRANSITION TO FEDERAL SYSTEM CONTEMPLATED**

The Partners have not provided for transition to federal regulation of greenhouse gases. A federal compliance system is only a few years away and will, by virtue of its national scope, provide a more efficient regulatory framework for addressing this global problem. The regional system must be designed to integrate smoothly into the federal system, once it is in place.

#### **CONCLUSION**

We support continued efforts to improve the WCI cap and trade design, but do not believe the current design is on the right track. PGE has considered how the current WCI system could be modified to avoid the problems we have listed, but we are unable to see how Oregon legislation could be shaped to avoid the fundamental flaws in the overall system, many of which are dependent on the actions of other states. At this late time in the WCI process, it seems unlikely that the serious differences between the Western States will be reconciled. For example, California's approach to regulation of utility emissions – the first deliverer point of regulation – may work in a power market with an Independent System Operator that already manages power transactions for utilities and generators, but it does not work in the Pacific Northwest where there is no ISO and system sales are recognized as the best practice. In addition, Washington utilities, which are predominately hydro generation users, have strongly and openly advocated at the state and federal levels for allowance and allocation formulas that severely disadvantage Oregon utilities and their industrial and commercial customers. Thus far, WCI negotiators have been unable to reconcile those differences in a way that does not disadvantage Oregon. Until differences like these are resolved, Oregon should not sign onto WCI and should instead concentrate on other means of reducing green houses gases, such as enhanced energy efficiency, carbon capture and storage projects, renewable energy development and building code changes. Creation of a workable cap and trade mechanism should be left to Congress. Should development of a federal solution truly fail, negotiations among the Western States should continue and concentrate on creating a true level playing field between the participants.

Thank you again for the opportunity to share our concerns about this important issue. We look forward to continued discussions with you and your staff about Oregon's path to a low-carbon future.