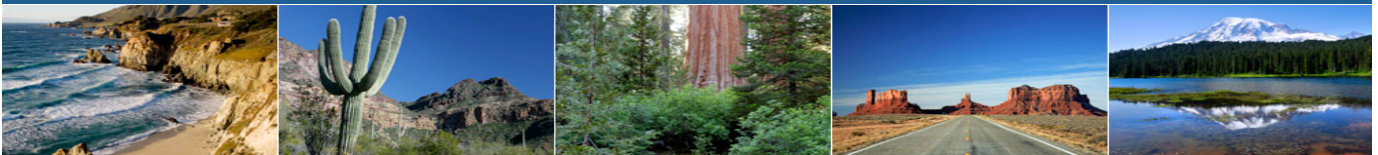


Western Climate Initiative



Draft Electricity Point of Regulation Recommendations for Public Review and Comment

March 3, 2008

To: All Interested Parties

This memorandum presents the WCI draft recommendation for the electricity point of regulation for the WCI cap-and-trade program. The recommendation is based on the WCI's analysis and assessment of the various approaches to covering the electricity sector released in table format in January 2008.¹ The WCI has taken into account all stakeholder comments received in writing, as well as the oral comments received at the January 10, 2008 stakeholder meeting and the February 11, 2008 stakeholder conference call.

Background

As set out in the "Update on Subcommittee Activities and Request for Stakeholder Input" released by the Electricity Subcommittee on January 2, 2008, the Electricity Subcommittee has considered several potential approaches to covering the electricity sector, including:

- (1) Pure load-based approach that places the point of compliance on retail providers within WCI and requires tracking of emissions attributes;
- (2) Pure generator-based approach that places the compliance obligation on fossil-fuel-fired generators in WCI;
- (3) The CO₂ Reduction Credits (CO₂RCs) approach to reducing emissions in the western interconnect area by placing a requirement to purchase and retire CO₂RCs on retail electricity providers in WCI;
- (4) A load-generator hybrid approach that combines the generator-based and load-based approaches to cover both emissions attributable to electricity delivered inside and outside of WCI; and

¹ The approaches table is available online at:
<http://www.westernclimateinitiative.org/ewebeditpro/items/O104F14577.PDF>

(5) A “deliverer” or “first seller” approach that places the point of regulation on the first entity to deliver electricity in a WCI jurisdiction.

The benefits and challenges associated with each approach are detailed in the Subcommittee’s “Summary Table Comparing Different Approaches to Electric Sector Cap-and-Trade”.

The Preliminary Draft Approach

After careful consideration of the Subcommittee’s recommendation, as well as the many stakeholder comments received by the Electricity Subcommittee, the Partners reached the following preliminary points of agreement:

The Partners agree:

- The point of regulation for the electricity sector should maximize coverage and minimize emissions leakage.
- A generator-based approach to covering the electricity sector is the preferable option.
- The generator-based option will be most effective with universal participation throughout WECC.²
- A proposal to bring in additional generators serving the western interconnect will be developed with a date certain by which those other jurisdictions will join the WCI. If the additional WECC jurisdictions do not join by that date, then the WCI will continue to develop the first-jurisdictional deliverer approach described below.
- That because not all generators serving the western interconnect are currently within the WCI, additional measures are needed to maximize coverage and minimize leakage.
- That the first jurisdictional deliverer approach should address the coverage and leakage issues during the transition to full WECC participation in the WCI:
 - The first jurisdictional deliverer approach covers all emissions generated in WCI; and,
 - All emissions attributable to electricity delivered in WCI but generated outside WCI.

² The Western Electricity Coordinating Council (WECC) region encompasses the interconnected power grid of the Western states, provinces, tribes, and a small part of Mexico (i.e., the “western interconnect”).

- To explore additional complementary measures to reduce leakage.
- That the point of regulation does not dictate the method of allocation and the partners are continuing to work on the allocation issue.

The Electricity Subcommittee is now in the process of working through questions raised by the Partners, including how additional generation in the WECC can be brought into the WCI, and how the first jurisdictional deliverer approach would actually be implemented in Partner jurisdictions. The Partners are eager to get stakeholder input on this draft point of regulation for the electricity sector.

Descriptions of the Approaches

The “first jurisdictional deliverer” and “generator-based” approaches are described below. The Electricity Subcommittee will work to provide more detail on these approaches, and to address any concerns or issues raised by individual partners and stakeholders.

The “Generator-based” Approach

- Each WCI partner would implement a set of requirements that apply to fossil-fuel electric generators (i.e. sources) in their jurisdiction.
- Generators would be required to measure, monitor and report emissions.
- At the end of each compliance period, generators would be required to “cover” all of their emissions with emissions allowances issued by the state or province.
- Leakage and coverage issues would be addressed if all jurisdictions in the WECC became trading partners in the WCI.
- Leakage and coverage challenges could be overcome through a “Generator-Plus” model in which imports are addressed through complementary measures.

The “First Jurisdictional Deliverer” Approach

- The point of regulation is on the first entity that the WCI partner has jurisdiction over that delivers power onto the WCI grid at a designated point of delivery
- First jurisdictional deliverers are (a) the fossil-fuel generators in the WCI jurisdictions and (b) the first party to deliver electricity generated outside the WCI region over whom the WCI Partner may assert jurisdiction.
- An importing deliverer could be an independent energy producer, a retail provider, a power marketer, or a power broker.

- For multi-jurisdictional utilities (spanning in and out of the WCI region) a load-based approach to cover non-WCI power imported over their power lines into their WCI service areas could be used.
- In the case of deliveries by Federal entities -- such as the Bonneville Power Administration (BPA) and the Western Area Power Administration (WAPA) -- the first jurisdictional entity may be a retail provider.
- WCI partners would have the option of phasing-in this approach over time, beginning with the fossil-fuel generators in the WCI jurisdiction.
- Tracking will be needed to account for greenhouse gas emissions resulting from power imports and exports among WCI jurisdictions and imports from non-WCI areas.
- Power generated outside WCI states and provinces that is “wheeled through,” but not delivered, to the WCI would be exempt from coverage.

The Other Approaches

In reaching the preliminary draft electricity point of regulation, the Partners necessarily had to set aside consideration of the other approaches to the electricity sector. Each of these approaches is listed below, together with some of the reasons given by one or more of the Partners for not selecting the approach:

(1) A pure load-based approach was removed for consideration because, among other reasons, it would require a complex emissions attribute tracking system, would not cover exported electricity; presented potential jurisdictional hurdles, and could be difficult to harmonize with a potential generator-based national cap-and-trade program.

(2) A load-generator hybrid approach was removed from consideration after, the Subcommittee determined it could modify the original “deliverer” or “first seller” approach into the first jurisdictional deliverer approach and meet WCI’s needs with a less-complicated administrative structure than that of the load-generator hybrid.

(3) The CO₂ Reduction Credits (CO₂RCs) approach was removed from consideration because it requires the periodic adjustment of the reduction requirement imposed on retail providers depending on load growth in the West; it is complex and difficult to understand; and because it presented issues with harmonizing to a potential generator-national program.

It bears noting that this discussion is meant to give you a sense of the chief reasons for not recommending each approach. The explanations are not complete and are not all shared by all Partners.

Next Steps

The Partners have directed the Electricity Subcommittee to gather stakeholder input on the draft electricity point of regulation, and to develop more detailed assessment of how to add more generation from the WECC into the WCI as well as how the first jurisdictional deliverer approach would be implemented in individual jurisdictions.

To that end, there will be a stakeholder conference call on Tuesday, March 11, 2008 from 10:30 to 12:00 noon Pacific Standard Time. During that call, questions will be taken on the draft point of regulation. Written comments are also encouraged, and the Partners are suggesting that these comments be forwarded via the website no later than Monday, March 17, 2008.

On behalf of the WCI Electricity Subcommittee and all of the WCI Partners, I thank you for your continued interest in the Western Climate Initiative and the Electricity Subcommittee's work.

Sincerely,

/s/

David Van't Hof
Oregon Governor's Office, and
Chair, Electricity Subcommittee