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July 31, 2008

MEMORANDUM

TO: Power Committee

FROM: Terry Morlan
Director, Power Planning Division

SUBJECT: A Discussion of How to Treat Climate Change in the Sixth Power Plan

Regardless of one's views about climate change, there are two realities that the Council must consider in the development of the Sixth Power Plan; (1) the climate has become warmer and, (2) states and private interests are setting goals and developing policies to address the climate change issue. Higher temperatures directly affect the demand for electricity and fuels, causing less energy use in the winter and more in the summer. Climate change policies are affecting the choice of resources that utilities can make because of state mandated renewable portfolio standards, carbon emissions limits, and policies intended to help meet greenhouse gas goals set by states and the Western Climate Initiative. In addition, higher temperatures would affect the timing of hydroelectric generation and affect salmon through reduced summer flows and higher water temperatures.

In response to the Council's paper on *Issues for the Sixth Northwest Power and Conservation Plan*, the region agreed that climate change was one of the key issues that needed to be addressed in the plan. There are different possible approaches to addressing the issue. Should the Council simply accept the current goals and laws adopted by the states and develop a plan that is consistent with those policies? Or should the plan attempt to contribute information about the most cost-effective approaches to reaching various carbon goals? Should the plan attempt to estimate the costs of complying with carbon policies by developing a case based on the principles of the Act and comparing it to a case based on current climate change policies? Should the action plan suggest new policies or changes in current policy based on the plan analysis and findings?

This agenda item is intended to be a discussion among Power Committee members to provide policy guidance to the staff on how to best approach this issue in the Sixth Power Plan. Staff has developed the attached framework to help stimulate the discussion, and focus it on getting the policy direction staff needs.

Attachment

Climate Change and the Sixth Power Plan

Discussion Framework

Power Committee Meeting
Spokane, Washington
August 13, 2008

Current Policies

- State RPS requirements (OR, WA, MT)
- GHG performance standards (OR, WA, MT)
- Carbon reduction targets (OR, WA)
- Production and investment tax credits (federal and state)
- System benefit charge program (OR, MT)

Current Policies

- Developed by different entities
- Not well coordinated
- Do not necessarily achieve same goals
- Could change or be superseded anytime

Potential Future Policies

- Federal GHG cap-and-trade mechanism
- Federal carbon tax
- Regional (WCI) cap-and-trade
- Federal GHG reduction targets
- Carbon emission mitigation policies

Options for 6th Plan

1. Focus on current policies only
2. Base the plan on uncertain future policy costs
3. Focus the plan on emissions goals and the best way to achieve them

These options are not strictly independent of each other – there will be a lot of overlap.

Focus on Current Policies

- Develop plan to conform to current policies
- Address lack of credit for conservation
- Estimate costs of current policies vs. the Act's concept of a least-cost plan
- Point out inconsistencies and shortcomings of current policies
- Evaluate likelihood that current policies will reach GHG emissions targets

Uncertain Future Policy Cost

- Consider cost of future policies as uncertain (similar to 5th Plan)
- What level of CO₂ costs will be required to meet various GHG reduction levels?
- What would those CO₂ costs mean for power system costs?
- What resources would be included in the plan given those levels of CO₂ cost?

Focus on Emissions Goals

- Start with current stated goals for GHG reduction, consider other possible goals
- Estimate a least-cost means of complying with GHG targets (Can we model this?)
- Consider role of other sectors in meeting goals
- Are current or future policies the most effective means of achieving goals?
- Should Council suggest new or revised policies?