

**Comments, clarifications, and corrections, should be submitted to:**

Kyle L. Davis  
Manager of Environmental Policy & Strategy  
PacifiCorp  
825 NE Multnomah, Portland, OR 97232  
(503) 813-6601 Phone  
(503) 813-6060 Fax  
E-Mail: [Kyle.L.Davis@PacifiCorp.com](mailto:Kyle.L.Davis@PacifiCorp.com)  
[www.pacifiCorp.com](http://www.pacifiCorp.com)

**January 18, 2007**

DRAFT

## Table of Contents

I.	Overview of Climate Policy .....	3
A.	International Efforts on Climate Change.....	3
B.	Domestic Proposals on Climate Change .....	4
1.	109 <sup>th</sup> Congress Proposals.....	4
2.	Sen. Domenici and Sen. Bingaman “White Paper” .....	6
3.	110 <sup>th</sup> Congress and Democratic Control of House and Senate .....	7
4.	Regional Initiatives.....	8
a)	Regional Greenhouse Gas Initiative (RGGI).....	8
b)	West Coast Governors’ Global Warming Initiative.....	9
c)	Southwest Climate Change Initiative .....	11
d)	Western Public Utility Commissions’ Joint Action Framework on Climate Change.....	11
5.	State Initiatives Generally .....	12
a)	State GHG Emissions Inventories, Registries, and Action Plans .....	12
b)	Growing Use of Renewable Portfolio Standards (RPS) .....	15
II.	PacifiCorp States’ Efforts to address Climate Change .....	17
A.	Arizona Climate Change Advisory Group .....	17
B.	California Emissions Performance Standard (SB1368) .....	17
C.	California Global Warming Solutions Act of 2006 (AB32).....	19
D.	Idaho Carbon Sequestration Advisory Group .....	21
E.	Montana Climate Change Advisory Committee .....	22
F.	Oregon Carbon Allocation Task Force .....	22
G.	Oregon Public Utilities Commission Activity Related to Carbon.....	23
H.	Utah Blue Ribbon Advisory Council on Climate Change.....	24
I.	Utah Public Utilities Commission Activity Related to Carbon.....	24
J.	Washington Climate Change Executive Order.....	25
K.	Wyoming Carbon Sequestration Advisory Committee .....	26
L.	Wyoming Infrastructure Authority.....	26
M.	Local Governments .....	26

## **Global Climate Change Policy Update (2007)**

**January 25, 2007**

### **I. OVERVIEW OF CLIMATE POLICY**

Climate change represents a significant policy issue that will have future, potentially significant, implications for PacifiCorp. The following sub-sections summarize the regulatory and legislative activity regarding climate change and greenhouse gas emissions.

#### **A. International Efforts on Climate Change**

The primary focus of international regulatory efforts to address climate change has been, and likely will continue to be, through the United Nations. In June of 1992 the United States signed the United Nations Framework Convention on Climate Change (UNFCCC). The Senate ratified the UNFCC in October of 1992, and the Convention entered into force on March 21, 1994. When governments adopted the Convention, they knew that their commitments would not be sufficient to seriously tackle climate change. Thus, at the first Convention of the Parties (COP 1) (Berlin, March/April 1995), in a decision known as the Berlin Mandate, the Parties launched a new round of talks to decide on stronger and more detailed commitments for industrialized countries. After two and a half years of intense negotiations, the Kyoto Protocol was adopted at Convention of the Parties 3 in Kyoto, Japan, in December 1997.

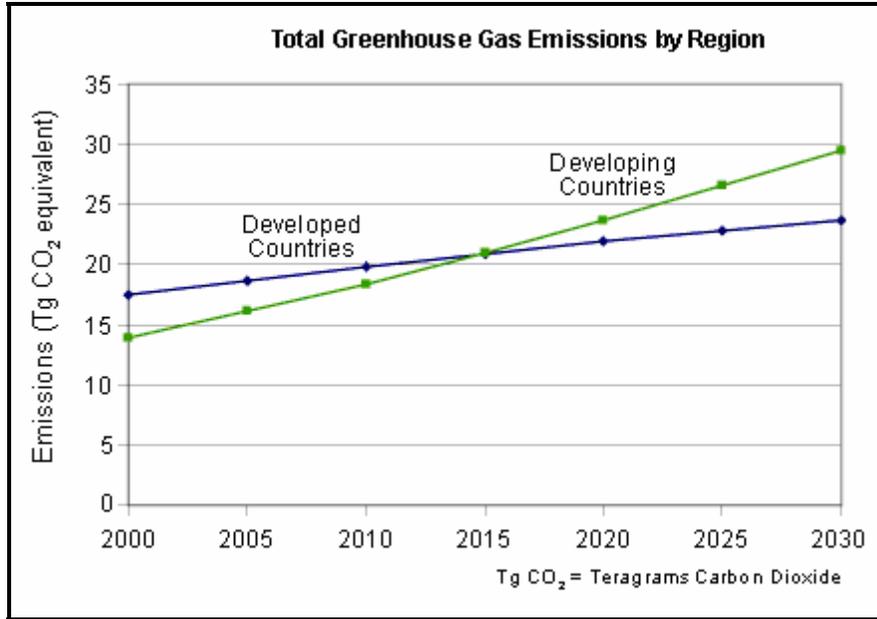
The United States later signed the Kyoto Protocol in November of 1998, but never passed implementing legislation that would ratify it. In March 2001, the Bush Administration formally withdrew the United States from the Kyoto Protocol negotiating process. Under the Kyoto protocol, the United States would have had to cut its greenhouse gas emissions 7 percent below 1990 levels by 2012. This mandate would have been especially difficult to meet given that the increase in carbon dioxide emissions since 1990 in addition to future economic growth would have required an adjusted target of 20-25% reduction from the expected 2012 levels.

Despite the U.S. position, the Kyoto Protocol entered into force on February 16, 2005. Countries that ratified the Protocol were obligated to take steps to achieve their binding targets no later than 2012 and a variety of national strategies were developed, most notably the European Union Emissions Trading System (EU ETS) that employs a cap-and-trade emissions system utilizing tons of carbon dioxide equivalents (CO<sub>2</sub>e) for trading units.

International debate has already begun on post-2012 actions and emissions levels for the Kyoto Protocol with an emphasis on pulling major emitters into the process, most notably the U.S. and rapidly developing economies such as China and India that are expected to eclipse the U.S. in greenhouse gas emissions. Many climate change policy analysts believe it is imperative that all large economies and rapidly developing economies be pulled into an international emissions control system because decreases in emissions from developed nations will soon be outweighed by increased emissions from developing nations (See Figure 25 below). For example, the “E7” emerging economies of China, India, Brazil, Russia, Mexico, Indonesia and Turkey, are estimated to be larger than the

current G7 (U.S., Japan, Germany, U.K., France, Italy and Canada) by 25 to 75 percent by the year 2050. China alone is expected to eclipse the U.S. in total greenhouse gas emissions by 2010.<sup>1</sup>

**Figure 1: Developing Countries Soon Become Major Emitters<sup>2</sup>**



## B. Domestic Proposals on Climate Change

Numerous Federal and state regulatory proposals have emerged to address climate change. While significant attention has been paid to climate change initiatives proposed in Congress, it may be that actions by the states eventually drive Federal legislation. The following section highlights recent activities at both levels of government.

### 1. 109<sup>th</sup> Congress Proposals

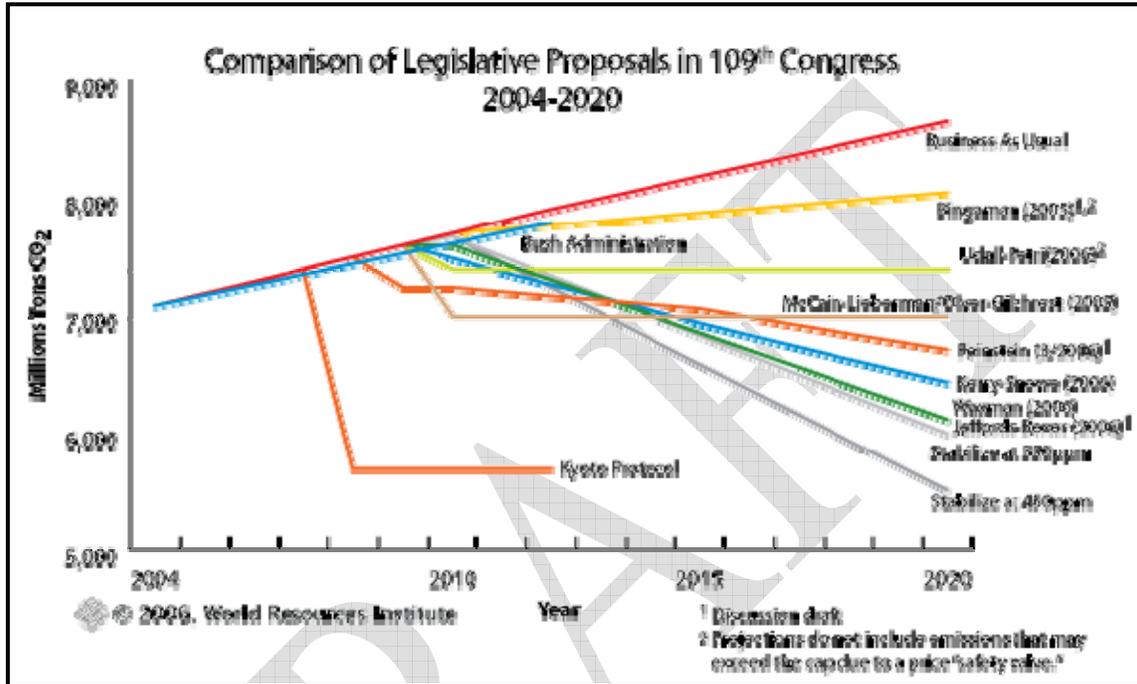
Discourse in Congress over the prospect of global warming and what the United States could or should do about it has yielded, over the last several years, a range of legislative proposals. Issues dealt with in bills that have been introduced in the 109th Congress include regulating not only emissions of carbon dioxide, but emissions of sulfur dioxide, nitrogen oxide, and mercury in so-called "multi-pollutant" legislation; greenhouse gas reduction and carbon dioxide emissions trading systems; energy issues relevant to climate change, especially those associated with encouraging or authorizing energy efficiency and alternative energy sources; carbon sequestration technologies and methodologies; federal and national research concerning the prospect of abrupt climate change, climate change impacts, and climate system surprises; federal spending on climate change

<sup>1</sup> John Hawksworth, "The World in 2050: Implications of global growth for carbon emissions and climate change policy," Pricewaterhouse Coopers, September 2006.

<sup>2</sup> SGM Energy Modeling Forum EMF-21 Projections, Energy Journal Special Issue, in press, reference case CO<sub>2</sub> projections. Non-CO<sub>2</sub> emissions data derived from Environmental Protection Agency's Global Anthropogenic Emissions of Non-CO<sub>2</sub> Greenhouse Gases 1990-2020.

science programs and climate change technology programs and, more broadly, on global change research programs; and long-term research and development programs to develop new technologies to help stabilize greenhouse gas emissions. Figure 2 below provides an overview of the major climate change proposals and their projected impact on carbon dioxide emissions.

**Figure 2: World Resources Institute Projections of Congressional Proposal Impacts on Carbon Dioxide Emissions.<sup>3</sup>**



Legislation introduced in the 109<sup>th</sup> Congress included at least 59 bills, resolutions and amendments addressing climate change and greenhouse gas emissions. The broad range of proposals attempted to address:<sup>4</sup>

- Multi-pollutant regulation regulating carbon dioxide, sulfur dioxide, nitrogen oxides, and mercury.
- Greenhouse gas reduction and carbon dioxide emissions trading programs.
- Energy issues relevant to climate change, especially those associated with encouraging or authorizing energy efficiency and alternative energy sources.
- Carbon sequestration technologies and methodologies.
- Research concerning the prospect of abrupt climate change, climate change impacts, and climate system surprises.
- Alternative fuels and the development and use of hydrogen powered vehicles.
- Federal spending on climate change science programs and climate change technology programs and, more broadly, on global change research programs.

<sup>3</sup> Copyright 2006, World Resources Institute: [http://www.wri.org/climate/topic\\_content.cfm?cid=4182](http://www.wri.org/climate/topic_content.cfm?cid=4182).

<sup>4</sup> [http://www.pewclimate.org/what\\_s\\_being\\_done/in\\_the\\_congress/109billsindex.cfm](http://www.pewclimate.org/what_s_being_done/in_the_congress/109billsindex.cfm)

- Long-term research and development programs to develop new technologies to help stabilize greenhouse gas emissions.

Senator Bingaman introduced and then withdrew an amendment based on a mandatory, carbon-intensity-based cap with a "safety valve" (e.g. carbon tax). As part of the debate, Senator Domenici agreed to hold hearings examining this mandatory, greenhouse gas-intensity approach. The first of these hearings was held July 21, 2005 and focused on climate science. In addition, a series of workshops to address issues relating to mandatory, intensity-based approaches were held by the National Commission on Energy Policy in September and October of 2005. MidAmerican Energy Holdings Company participated in the workshops, which were largely intended to raise the awareness of the issues surrounding climate change in preparation for future legislative debate.

Congressional action on climate change culminated in a series of provisions in the Energy Policy Act of 2005, including many provisions that directly or indirectly address climate change and greenhouse gas emissions. Title XVI, Climate Change, was consistent with technology development and deployment elements of the amendment offered by Senators Hagel and Pryor and adopted by the Senate. Title XVII, Incentives for Innovative Technologies, contains financial investment incentives similar to those in the Hagel-Pryor amendment.

## **2. Sen. Domenici and Sen. Bingaman "White Paper"**

In early February 2006, the Senate Energy and Natural Resources Committee released a White Paper<sup>5</sup> that outlines a bipartisan approach to mandatory, federal greenhouse gas trading. The White Paper, issued by Senator Pete V. Domenici (R-New Mexico), chairman of the committee, and Senator Jeff Bingaman (D-New Mexico), the ranking Democrat, raised questions about the possible design of a domestic mandatory cap-and-trade scheme for reducing greenhouse gases. The Senate Committee solicited response to the questions raised within the White Paper, which were due in late March 2006. The Committee held a day-long conference on April 4, 2006, focused on the responses.<sup>6</sup>

Several major companies, including General Electric Company and Wal-Mart, said a limit on United States emissions was necessary to stem the effects of global warming, but the various industries present at the summit diverged sharply on the methods for regulation, as did the lawmakers who ran the show. "The consensus on how you put it together, and [affect] these industries particularly, is all over the ballpark," said Senator Pete Domenici (R-New Mexico), host of the informal meeting as chairman of the Energy and Natural Resources Committee. Even so, that the committee session took place was billed by many as progress, and Domenici, Energy Committee ranking member Jeff Bingaman (D-New Mexico) and other panel members peppered the presenters with questions about the best approaches to writing a global warming bill.

Senators Pete Domenici (R-New Mexico) and Jeff Bingaman (D-New Mexico) marked the one-year anniversary of a Senate resolution on global warming on June 22, 2006<sup>7</sup>, with a vow to continue legislative talks. They also issued a joint statement with fresh

<sup>5</sup> See, [http://energy.senate.gov/public/\\_files/ClimateChangeWhitePaper.doc](http://energy.senate.gov/public/_files/ClimateChangeWhitePaper.doc)

<sup>6</sup> See, [http://energy.senate.gov/public/index.cfm?FuseAction=IssueItems.View&IssueItem\\_ID=38](http://energy.senate.gov/public/index.cfm?FuseAction=IssueItems.View&IssueItem_ID=38)

<sup>7</sup> See, [http://energy.senate.gov/public/\\_files/JointStatementonClimateConference.pdf](http://energy.senate.gov/public/_files/JointStatementonClimateConference.pdf)

insight on where consensus may ultimately be found. In the statement, the chairman and ranking member of the Senate Energy and Natural Resources Committee outlined where they see agreement amid a diverse array of interests, from coal-fired power plant owners to environmentalists. The senators based their comments on a daylong climate conference they hosted in April 2006, plus hundreds of written comments submitted in the days leading up to the session.

"While opinions varied on the stringency of initial limits, there was support for the notion that a program should begin modestly and strengthen gradually over time," Domenici and Bingaman said of a possible first-ever United States mandatory scheme to limit emissions of heat-trapping greenhouse gases. Generally, most participants at the April meeting said they would support an economy-wide program for lowering emissions as opposed to just focusing on a single industrial sector, such as electricity or transportation. Domenici and Bingaman also envision support among the meeting's participants for regulating at the source of energy production instead of at the end-use consumer. Under such a scenario, coal mining companies, petroleum refiners and natural gas shippers would need to acquire permits or allowances, as opposed to an electric utility or a large industrial plant. Other areas of general agreement, the senators said, revolve around allowing access to the climate trading program for outside environmentally friendly projects, especially in agriculture and forestry. Concerns about the integrity of the projects would need to be addressed, the senators cautioned. The need to link up a new United States climate program with existing domestic and foreign carbon trading programs also received significant support. Finally, the senators recalled how many panelists had urged the United States to take a "cautious first step toward mandatory action" contingent on the efforts of developing nations such as China and India.

Many policy analysts predict that the newly elected democratic 110<sup>th</sup> Congress will increase the number of climate change related proposals. However, the general belief is that dramatic changes in climate policy are unlikely until after President Bush's term in office. Thus, projections of a carbon constrained environment often begin between the years 2010 and 2015. These projections coincidentally dovetail with post-2012 Kyoto Protocol policy negotiations already underway. Thus, it is plausible that the U.S. could enter into an international climate change framework within the next 5-10 years if the issue of emissions from developing nations can be addressed, thereby creating a more level playing field in a carbon constrained environment.

### **3. 110<sup>th</sup> Congress and Democratic Control of House and Senate**

Democratic victories on November 7, 2006 in the House and Senate appear likely to boost efforts to strengthen U.S. global warming policy, but it is far from certain whether the 110<sup>th</sup> Congress and President Bush will work together over the coming two years to enact a first-ever federal law to cap greenhouse gas emissions.

With Democrats taking over the House and the Senate in January, experts and lawmakers alike expect an emboldened legislative branch to advance an entirely new set of environment and energy proposals unlike anything seen during Bush's previous six years in the White House. Senate Environment and Public Works Committee is set to be chaired by Sen. Barbara Boxer (D-Calif.) has committed to having a set of intensive hearings on the issue of global warming during 2007.

On January 5, 2007, Senator Bingaman (D-NM) circulated a discussion draft which identifies his current proposal for mandatory greenhouse gas reduction legislation. On January 12, 2007, Senators Lieberman (I-CT) and McCain (R-AZ) reintroduced their proposed federal carbon legislation.<sup>8</sup> Senate legislation has also been released by Senators Sanders (I-VT) and Boxer (D-CA)<sup>9</sup> and Senators Feinstein (D-CA) and Carper (R-DE).<sup>10</sup>

On January 18, 2007, House Speaker Pelosi (D-CA) announced the formation of a new Select Committee on Energy Independence and Global Warming. The panel will draw on members from as many as nine existing panels that already have authority over the issue. Rep. Ed Markey (D-Mass.) is expected to lead the new committee, which will only be commissioned for the 110th Congress. The speaker also expressed her intent to have legislation through the committees by July 4, 2007.

#### **4. Regional Initiatives**

Regional state initiatives were significant in 2006. The most notable developments have been in the Regional Greenhouse Gas Initiative (RGGI),<sup>11</sup> which is comprised of Northeastern and Mid-Atlantic states. In addition to this historic regional state action, a host of activities related to climate change have been occurring at the regional level. This sub-section outlines notable developments within regional state government initiatives.

##### **a) Regional Greenhouse Gas Initiative (RGGI)**

New York Governor George Pataki initiated the formation of the Regional Greenhouse Gas Initiative in April 2003 by inviting neighboring states to join in a program to address greenhouse gas emissions. In December of 2005 the creation of the Regional Greenhouse Gas Initiative was announced. The regional partnership is comprised of Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont (dark-shaded states in Figure 8 below). Massachusetts was involved in the process, but withdrew due to concerns about economic impacts; however, with the election of a new democratic governor Massachusetts is now expected to rejoin the partnership. Due to recent state legislation, Maryland will also join the partnership in 2007. Rhode Island and Pennsylvania are currently observers in the Regional Greenhouse Gas Initiative.

---

<sup>8</sup> S.280, the “Climate Stewardship and Innovation Act of 2007”

<sup>9</sup> S.309, the “Global Warming Pollution Reduction Act”

<sup>10</sup> S.319, the “Electric Utility Cap and Trade Act of 2007”

<sup>11</sup> Regional Greenhouse Gas Initiative, <http://www.rggi.org/>

**Figure 8: States Involved with RGGI<sup>12</sup>**



The regional partnership worked on draft model rules for over a year with the intention that all member states would adopt a version of the final model rule. After processing a massive volume of comments on the initial draft rule, a final model rule was released on August 15, 2006<sup>13</sup>. Though not yet implemented, the Regional Greenhouse Gas Initiative would be the first mandatory cap and trade program for carbon dioxide in the nation.

The Regional Greenhouse Gas Initiative cap and trade system begins in 2009 and affects power plants of 25 megawatts and greater that burn more than 50% fossil fuel. The partnership set the cap on covered power plants at the current, approximate annual emission rate of 120 million tons of carbon dioxide for the years 2009 to 2015. After 2015, emissions of greenhouse gases are to decline 10% by 2019.

Participating states will be allocated their proportional share of the emissions allowances, and can distribute up to 75% of the allowances however they desire. While it is expected that most of these allowances will be distributed at no cost to power plants covered by the cap and trade system, such generosity is not required in the model rule and the allowances could be sold at a set price or auctioned instead. At least 25% of each state’s allowances must be used for a public benefit, such as the auctioning of allowances to fund renewable energy, energy efficiency, or low income energy assistance programs. However, the terms of what comprises a public benefit is not strictly defined in the model rule and such monies could be utilized for a wide variety of public purposes.

On January 18, 2007, Massachusetts Governor Deval Patrick announced that the state has rejoined the Regional Greenhouse Gas Initiative.

#### **b) West Coast Governors’ Global Warming Initiative**

Launched in September 2003<sup>14</sup>, the Governors of California, Oregon and Washington committed to act individually and regionally to reduce greenhouse gas emissions below

<sup>12</sup> Regional Greenhouse Gas Initiative, <http://www.rggi.org/>

<sup>13</sup> See, <http://www.rggi.org/modelrule.htm>

<sup>14</sup> West Coast Governors’ Global Warming Initiative, <http://www.climatechange.ca.gov/westcoast/index.html>

current levels through strategies that promote long-term economic growth, protect public health and the environment, consider social equity, and expand public awareness.

To date, the Governors have approved 36 recommendations in five areas that were jointly developed by the three states. Among the recommendations are directives to:

1. Set new targets for improvement in performance in average annual state fleet greenhouse gas emissions.
2. Collaborate on the purchase of hybrid vehicles.
3. Establish a plan for the deployment of electrification technologies at truck stops in each state on the I-5 corridor, on the outskirts of major urban areas, and on other major interstate routes.
4. Set goals and implement strategies and incentives to increase retail energy sales from renewable resources by one percent or more annually in each state through 2015.
5. Adopt energy efficiency standards for eight to 14 products not regulated by the federal government, establishing a cost-effective efficiency threshold for all products sold on the West Coast.
6. Incorporate aggressive energy efficiency measures into updates of state building energy codes, with a goal of achieving at least 15 percent cumulative savings by 2015 in each state.
7. Organize a West Coast Governors' conference in 2005 to inform policy-makers and the public of climate change research concerning the West Coast states.

In addition, as the next phase of work under this Initiative, the Governors have agreed to explore more comprehensive regional measures to reduce greenhouse gas emissions, working with stakeholders deliberating in each of their states.

Four areas are highlighted as holding the most promise for achieving greenhouse gas reductions:

- Adopt comprehensive state and regional goals for greenhouse gas emissions reductions;
- Adopt standards to reduce greenhouse gas emissions from vehicles;
- Develop a market-based carbon allowance program; and,
- Expand the markets for energy efficiency, renewable resources, and alternative fuels.

The Governors directed their state agencies to continue the West Coast Governors' Global Warming Initiative, and to strengthen links with similar efforts in other states and Canada. The Governors have stated they are fully confident that, given the promise of new technologies, reducing greenhouse gases will simultaneously protect the environment and grow the economy across the region. "By working together," the report states, "the West Coast States can take a global leadership position in reducing greenhouse gas emissions and combating global warming—while achieving strong, long-term economic growth."

### **c) Southwest Climate Change Initiative**

On February 28, 2006, Arizona Governor Janet Napolitano and New Mexico Governor Bill Richardson signed an agreement launching the Southwest Climate Change Initiative<sup>15</sup>, which establishes a framework for the two states to collaborate on strategies to address the impacts of climate change in the Southwest and reduce greenhouse gas emissions in the region.

Under the Initiative, Arizona<sup>16</sup> and New Mexico<sup>17</sup> will collaborate on a number of climate change-related actions, including: development of consistent approaches for measuring, forecasting and reporting greenhouse gas emissions; giving credit for greenhouse gas reduction actions; identifying options for reducing greenhouse gas emissions; promoting climate change mitigation actions, energy efficient technologies and clean and renewable energy sources that enhance economic growth; and advocating for regional and national climate policies that reflect the needs and interests of Southwestern states.

In the document establishing the Initiative, the Governors declare that "Southwestern states have particular concerns about the impacts of climate change and climate variability on residents, businesses and the environment, including the potential for prolonged drought, severe forest fires, warmer temperatures, increased snowmelt, reduced snowpack and other effects." They also state that "actions to reduce greenhouse gas emissions, such as energy conservation and development of renewable energy sources, may have multiple benefits, including economic development, job creation, cost savings and improved air quality that are not limited to state boundaries."

### **d) Western Public Utility Commissions' Joint Action Framework on Climate Change**

On December 1, 2006, California utility regulators and their counterparts in New Mexico, Oregon and Washington pledged to coordinate efforts to limit greenhouse gas emissions. The regulators in those four states will work together to address climate change, from promoting energy efficiency to encouraging the use of clean energy. The respective heads of the California Public Utilities Commission, the Washington Utilities and Transportation Commission, the Oregon Public Utility Commission, and the New Mexico Regulation Commission signed the agreement. The Joint Action Framework on Climate Change outlines a commitment to regional cooperation to address climate change. The Commissions will work cooperatively on the following actions to implement the Shared Principles:

- Review best practices for energy efficiency and pursue joint opportunities to identify and secure cost-effective conservation. Develop policies to recognize energy efficiency as an energy resource, including strong evaluation,

---

<sup>15</sup> Southwest Climate Change Initiative, see <http://www.nmclimatechange.us/ewebeditpro/items/O117F8087.pdf>

<sup>16</sup> Arizona Climate Change Advisory Group, <http://www.azclimatechange.us/>

<sup>17</sup> New Mexico Climate Change Advisory Group, <http://www.nmclimatechange.us/>

measurement and verification standards and protocols, and integration of energy efficiency into utility resource portfolios.

- Review best practices for demand response and develop joint activities to increase beneficial demand response capability.
- Explore ways to remove barriers to the development of advanced, low-carbon technologies for fossil fuel-powered generation capable of capturing and sequestering carbon dioxide emissions.
- Explore the development and implementation of greenhouse gas emissions standards for new long-term power supplies.
- Examine opportunities to further support and implement renewable energy development to serve the West Coast states, including policies to encourage the development of transmission that provides access to prime resource sites.
- Commit to outreach with neighboring states.

The accord may expand to include other Western states, the regulators said. The signing ceremony drew regulatory and legislative representatives from Montana, Wyoming, Utah and Nevada.

## **5. State Initiatives Generally**

### **a) State GHG Emissions Inventories, Registries, and Action Plans**

A common first step by states to begin addressing climate change is through the development of a state inventory or registry for greenhouse gas emissions. State inventories are estimates and projections of greenhouse gas emissions from various sectors (e.g. agriculture, transportation, industry). While general in scope, greenhouse gas inventories can still provide policy value by identifying major greenhouse gas emitting sectors and sinks (e.g. forestry) within a state's economy.

Registries are a step beyond inventories and require the actual tabulation of greenhouse gas emissions or emission reduction activities. Most registries, such as the well known California Climate Action Registry<sup>18</sup>, involve the tabulation and public reporting of actual greenhouse gas emission from entities residing or operating in a state (e.g. industrial facilities, government agencies, commercial businesses). Registries can either be mandatory or voluntary, though a trend is forming toward mandatory reporting under registries. PacifiCorp recently completed a full inventory of greenhouse gas emissions for the years 2004 and 2005 utilizing the reporting protocol of the California Climate Action Registry, which is considered to be the leading model registry for adoption by other states and regional partnerships.

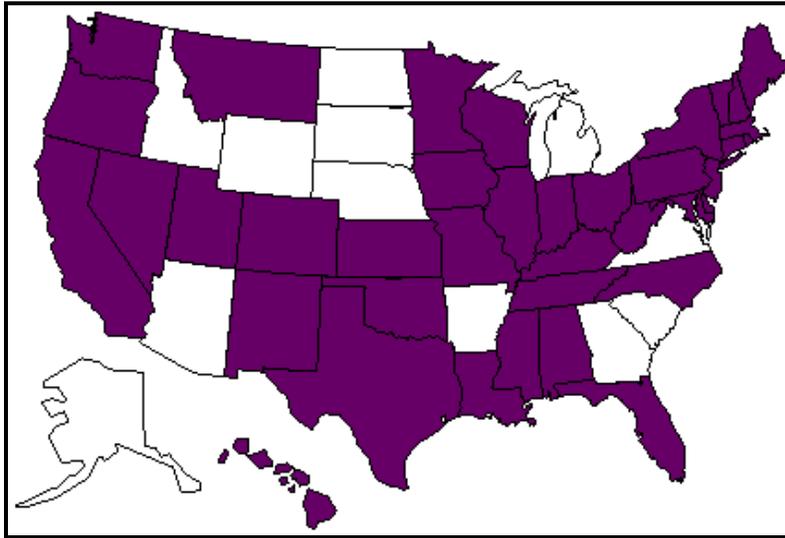
Figure 3 and 4 illustrate that a clear majority of states have developed greenhouse gas inventories and many are developing or have already developed greenhouse gas

---

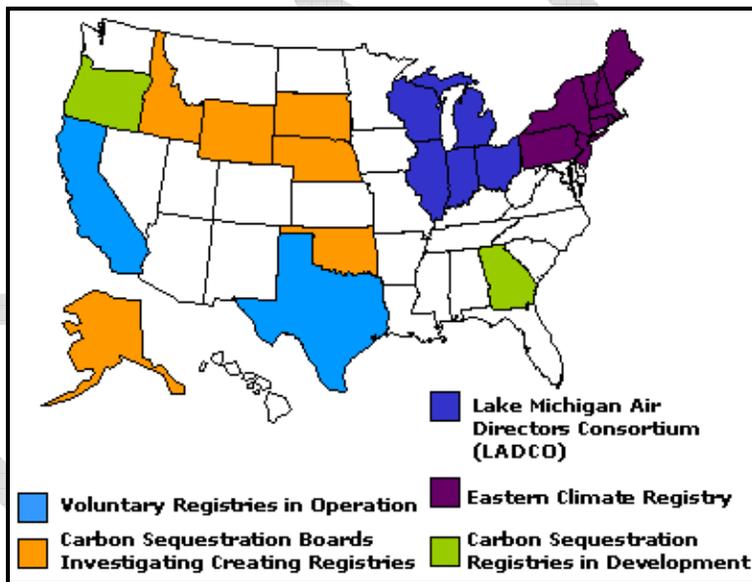
<sup>18</sup> California Climate Action Registry, <http://www.climateregistry.org/Default.aspx?refreshed=true>

registries.

**Figure 3: States with Greenhouse Gas Inventories<sup>19</sup>**



**Figure 4: States with Greenhouse Gas (GHG) Reporting & Registries<sup>20</sup>**



Many states also begin to investigate and address climate change through the development of climate action plans and the formation of legislative advisory groups. Though action plans are often broad and general in scope, the publication of an action plan is usually a first step toward more concrete regulatory action via a legislative or executive office committee. As can be seen in Figures 5 and 6 below, a large number of states have developed action plans and a growing number have active legislative commissions or executive branch advisory groups investigating climate change.

<sup>19</sup> [http://www.pewclimate.org/what\\_s\\_being\\_done/in\\_the\\_states/inventories\\_map.cfm](http://www.pewclimate.org/what_s_being_done/in_the_states/inventories_map.cfm)

<sup>20</sup> [http://www.pewclimate.org/what\\_s\\_being\\_done/in\\_the\\_states/reporting\\_map.cfm](http://www.pewclimate.org/what_s_being_done/in_the_states/reporting_map.cfm)

In 2006, several states completed climate action plans, others continue working on them and many others have just begun the process. Two Rocky Mountain states released climate change action plans – Arizona in September<sup>21</sup> and New Mexico in early December.<sup>22</sup> Both plans call for the states to adopt California’s greenhouse gas emissions standards for motor vehicles. Several states launched processes to develop climate change action plans and assess impacts: Alaska,<sup>23</sup> Colorado,<sup>24</sup> Illinois,<sup>25</sup> Minnesota<sup>26</sup> and Vermont,<sup>27</sup> with most of these states targeting 2007 as the date for completing these plans. Meanwhile, Montana<sup>28</sup> and North Carolina<sup>29</sup> continued developing their climate change action plans, also with 2007 projected completion dates.

Figure 5: State with Completed Climate Action Plans<sup>30</sup>



<sup>21</sup> Available at <http://www.azclimatechange.us>

<sup>22</sup> Available at <http://www.nmclimatechange.us>

<sup>23</sup> The Alaska Climate Impact Assessment Commission was created by law in May. A preliminary report is due by March 2007 and a final report is due by January 2008. Alaska bill HCR 30, available at [http://www.legis.state.ak.us/basis/get\\_bill\\_text.asp?hsid=HCR030E&session=24](http://www.legis.state.ak.us/basis/get_bill_text.asp?hsid=HCR030E&session=24).

<sup>24</sup> The Rocky Mountain Climate Organization recently launched the Colorado Climate Project, with the goal to release recommendations for a new governor by fall 2007. See <http://www.coloradoclimate.org>

<sup>25</sup> Illinois’ governor directed the formation of the Illinois Climate Change Advisory Group, tasked with creating a GHG action plan by June 30, 2007. The order also says it is the “intent” to reduce GHG emissions from governmental operations by 6% by 2010 and join the Chicago Climate Exchange. Illinois Executive Order 2006-11 (Oct. 5, 2006), available at <http://www.illinois.gov/Gov/pdfdocs/execorder2006-11.pdf>.

<sup>26</sup> Minnesota’s governor announced in December that the state will develop a climate change action plan and proposed that the state join the Chicago Climate Exchange. See <http://www.governor.state.mn.us/mediacenter/pressreleases/PROD007863.html>.

<sup>27</sup> Vermont passed a law (S.259) in May setting GHG reduction targets and directing the creation of a climate change action plan by Sept. 1, 2007. See <http://www.leg.state.vt.us/docs/legdoc.cfm?URL=/docs/2006/acts/ACT168.HTM>.

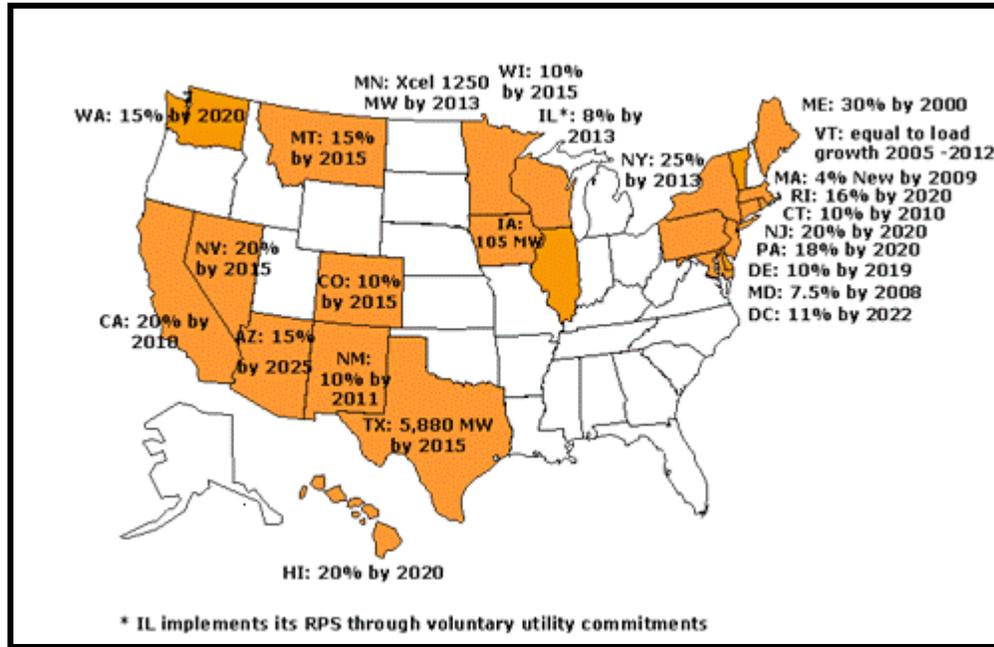
<sup>28</sup> Montana’s governor in December 2005 directed the formation of a climate change advisory group and completion of a plan by July 2007, <http://www.mtclimatechange.us/>.

<sup>29</sup> North Carolina will complete its action plan by mid-2007. See [www.ncclimatechange.us](http://www.ncclimatechange.us).

<sup>30</sup> [http://www.pewclimate.org/what\\_s\\_being\\_done/in\\_the\\_states/action\\_plan\\_map.cfm](http://www.pewclimate.org/what_s_being_done/in_the_states/action_plan_map.cfm)



**Figure 7: States with Renewable Portfolio Standards<sup>33</sup>**



The vast majority of states passed the mandates in the late 1990's and early 2000's, and a growing trend is developing in which states with existing renewable portfolio standards are setting new requirements to increase the contribution of renewable energy sources. Between 2004 and 2006 a total of eight states, comprising over 1/3<sup>rd</sup> of those with renewable portfolio standards, expanded and enhanced their requirements for renewable energy generation.<sup>34</sup>

<sup>33</sup> [http://www.pewclimate.org/what\\_s\\_being\\_done/in\\_the\\_states/rps.cfm](http://www.pewclimate.org/what_s_being_done/in_the_states/rps.cfm)

<sup>34</sup> Barry G. Rabe, "Race to the Top: The Expanding Role of U.S. State Renewable Portfolio Standards," Pew Center on Global Climate Change, June 2006.

## **II. PACIFICORP STATES’ EFFORTS TO ADDRESS CLIMATE CHANGE**

The following provides a high-level overview of climate policy developments within the states where PacifiCorp operates or has an equity interest within a generating asset.

### **A. Arizona Climate Change Advisory Group**

Governor Napolitano signed Executive Order 2005-02 on February 2, 2005, establishing the Arizona Climate Change Advisory Group<sup>35</sup>. The group’s objectives were two-fold: 1) establish a baseline inventory and forecast of greenhouse gas emissions in Arizona and 2) produce an action plan with recommendations for reducing those emissions.

On September 8, 2006, Governor Napolitano signed Executive Order 2006–13<sup>36</sup>, geared toward reducing greenhouse gas emissions, after receiving a report from the Climate Change Advisory Group. The Action Plan contains a report on the effects of climate changes and offers a list of recommendations to cut back on greenhouse gas emissions. The Advisory Group is made up of a broad-based group of stakeholders, including Phelps Dodge, Tucson Electric Power, Salt River Project, Arizona Public Service, the American Lung Association of Arizona and the Greater Flagstaff Forest Partnership, among others.

The Executive Order establishes a statewide goal to reduce Arizona’s future greenhouse gas emissions to the 2000 emissions level by the year 2020, and to 50% below the 2000 level by 2040. The Executive Order also creates a Climate Change Executive Committee whose task it will be to develop a strategy to implement the recommendations in the Action Plan and to explore ways to meet Governor Napolitano’s challenge of reaching the 2000 emissions level even sooner – by Arizona’s Centennial in 2012.

Recommendations made by the Advisory Group include:

- Improving energy efficiency for buildings and appliances;
- Reducing energy demand by consumers and businesses;
- Increasing the development and use of renewable energy sources;
- Providing incentives for hybrids and other low emissions vehicles;
- Achieving a lower-GHG-emissions state vehicle fleet;
- Reducing vehicle idling and adopting cleaner vehicle emissions standards;
- Increasing the production and use of ethanol and biodiesel;
- Using better land and forest management practices to increase efforts to remove carbon from the atmosphere (known as “carbon sequestration.”)

### **B. California Emissions Performance Standard (SB1368)**

California Senate Bill 1368 (SB 1368), signed into law on September 29, 2006, is an emissions performance standard law designed to effectuate a rulemaking at the California

---

<sup>35</sup> Arizona Climate Change Advisory Group, <http://www.azclimatechange.us/>

<sup>36</sup> Arizona Executive Order 2006-13, [http://www.governor.state.az.us/dms/upload/EO\\_2006-13\\_090806.pdf](http://www.governor.state.az.us/dms/upload/EO_2006-13_090806.pdf)

Public Utilities Commission, Docket No. R.06-04-009<sup>37</sup>, and grants authority to the California Energy Commission to promulgate a similar emissions performance standard for publicly-owned utilities. PacifiCorp has been an active participant within the Commission docket. SB 1368 establishes a greenhouse gas emissions performance standard that prohibits any load serving entity, including electrical corporations, community choice aggregators, electric service providers, and local publicly owned electric utilities, from entering into a long-term financial commitment unless baseload generation complies with a greenhouse gases emission performance standard not exceed the rate of emissions of a combined-cycle natural gas facility.

A long-term financial commitment is defined as a new ownership investment in baseload generation or a new or renewed contract with a term of five or more years, which includes procurement of baseload generation. Baseload generation includes electricity generation from a powerplant that is designed and intended to provide electricity at an annualized plant capacity factor of at least 60 percent.

SB 1368 precludes the California Public Utilities Commission and the California Energy Commission from approving the construction of or contract for baseload generation that does not meet the greenhouse gas emissions performance standard. Costs incurred for electricity purchase agreements that are approved by the Public Utilities Commission that comply with the greenhouse gas emission performance standard are recognized as procurement costs incurred pursuant to an approved procurement plan and the Public Utilities Commission is required to ensure timely cost recovery of those costs. Long-term financial commitments entered into through a contract approved by the Public Utilities Commission for electricity generated by a zero- or low-carbon generating resource<sup>38</sup> that is contracted for on behalf of consumers in California on a cost-of-service basis is recoverable in rates, and the Public Utilities Commission may, after hearing, approve an increase from one-half to one percent in the return on investment by the third party entering into the contract with an electrical corporation relating to its investment in zero- or low-carbon generation resources.

By February 1, 2007, the Public Utilities Commission must adopt (in consultation with the California Energy Commission and Air Resources Board), a greenhouse gas performance standard for all baseload generation of load-serving entities, at a rate of emissions of greenhouse gases that is no higher than the rate of emissions for combined-cycle natural gas baseload generation. The California Energy Commission must adopt regulations for municipal utilities consistent with the Public Utilities Commission rules by June 30, 2007. Enforcement of the emission performance standard begins immediately upon the establishment of the standard. Existing combined-cycle power plants that are in operation, or have a California Energy Commission final permit decision to operate, as of

---

<sup>37</sup> The California PUC final Emissions Performance Standard Staff Workshop Report, which includes the latest staff straw proposal, is posted on the PUC website at:

[www.cpuc.ca.gov/static/energy/electric/climate+change](http://www.cpuc.ca.gov/static/energy/electric/climate+change). The direct link to the Report is [www.cpuc.ca.gov/published/REPORT/60350.htm](http://www.cpuc.ca.gov/published/REPORT/60350.htm).

<sup>38</sup> Zero- or low-carbon generating resource is defined as an electrical generating resource that will generate electricity while producing emissions of greenhouse gases at a rate substantially below the greenhouse gas emission performance standards, as determined by the PUC.

June 30, 2007, are grandfathered under the bill and are deemed to be in compliance with the greenhouse gas emission performance standard.

In determining the rate of emissions of greenhouse gases for baseload generation, the Public Utilities Commission is required to include the net emissions resulting from the production of electricity by the baseload generation, utilizing an output-based methodology to ensure that the calculation of emissions of greenhouse gases for cogeneration recognizes the total usable energy output of the process and includes all greenhouse gases emitted by the facility in the production of both electrical and thermal energy. In calculating emissions of greenhouse gases by facilities generating electricity from biomass, biogas or landfill gas, the Public Utilities Commission is required to consider net emissions from all aspects of the process, including the growing and processing of the fuel source, as well as the generation of the electricity itself.

Carbon dioxide that is injected in geological formations, "so as to prevent releases into the atmosphere, in compliance with applicable laws and regulations" is not counted in the power plant emissions when determining compliance with the greenhouse gas emissions performance standard. The bill, as adopted, did not address the issue of integrated gasification combined-cycle, other than indirectly through the netting of emissions for carbon dioxide that is geologically sequestered. The legislation merely addresses zero- or low-carbon generating resources that produce greenhouse gas emissions at a rate substantially below the performance standard. An integrated gasification combined-cycle facility without sequestration would not meet the requisite criteria.

The California Public Utilities Commission has proposed a standard of 1,000 pounds of carbon dioxide per megawatt-hour (MWh) for baseload generation.<sup>39</sup> The California Energy Commission is required to propose a similar requirement for municipal utilities.<sup>40</sup>

### **C. California Global Warming Solutions Act of 2006 (AB32)**

On September 27, 2006, California Governor Arnold Schwarzenegger signed Assembly Bill 32 (AB 32), know as the California Global Warming Solutions Act of 2006, into law. California has since become the focus of climate change policy due to its massive economy, the fact that it is the 12<sup>th</sup> largest emitter of greenhouse gases in the world, and has had a history of catalyzing the formation of national environmental policy and regulation.

The bill itself is fairly performance oriented and could result in a comprehensive, and thus effective, greenhouse gas mitigation strategy beyond the traditional focus solely on utilities. Under the legislation greenhouse gas emissions would be reduced to 1990 levels by 2020 (a 25% reduction) and further reduced to 80% below 1990 levels by 2050. In determining and measuring these levels, the protocols of the California Climate Action Registry are to be incorporated to the maximum extent feasible. AB 32 also sets forth the following milestones for the California Air Resources Board:

---

<sup>39</sup> CPUC, "Interim Opinion on Phase 1 Issues: Greenhouse Gas Emissions Performance Standard," (Rulemaking 06-04-009), available at <http://www.cpuc.ca.gov/EFILE/PD/62840.pdf>.

<sup>40</sup> SB1368, *supra* note 42.

- By July 1, 2007, the Air Resources Board forms Environmental Justice and Economic & Technology Advancement advisory committees.
- By July 1, 2007, Air Resources Board adopts list of discrete early action measures that can be adopted and implemented before January 1, 2010.
- By Jan 1, 2008, Air Resources Board adopts regulations for mandatory greenhouse gas emissions reporting. Air Resources Board defines a 1990 emissions baseline for California (including emissions from imported power) and adopts that as the 2020 statewide cap.
- By Jan 1, 2009, Air Resources Board adopts plan indicating how emission reductions will be achieved from significant sources of greenhouse gas emissions via regulations, market mechanisms and other actions.
- During 2009 Air Resources Board staff drafts rule language to implement its plan and holds a series of public workshop on each measure (including market mechanisms).
- By Jan 1, 2010, early action measures take effect.
- During 2010 Air Resources Board conducts series of rulemakings, after workshops and public hearings, to adopt greenhouse gas regulations including rules governing market mechanisms.
- By Jan 1, 2011, Air Resources Board completes major rulemakings for reducing GHGs including market mechanisms. Air Resources Board may revise the rules and adopt new ones after 1/1/2011 in furtherance of the 2020 cap.
- By Jan 1, 2012, greenhouse gas rules and market mechanisms adopted by Air Resources Board take effect and are legally enforceable. (Note: This deadline dovetails well with the post-2012 Kyoto Protocol negotiations.)
- Dec 31, 2020, deadline for achieving 2020 greenhouse gas emissions cap enforced by Air Resources Board.

Furthermore, prior to creating enforceable mandates or market mechanisms (i.e. cap and trade programs), AB 32 specifies that the Air Resources Board must evaluate at least the following factors:

- Impacts on California's economy, the environment, and public health;
- Equity between regulated entities;
- Electricity reliability,
- Conformance with other environmental laws, and to ensure that the rules do not disproportionately impact low-income communities.

Although AB 32 does not specify a specific market-based policy tool to address greenhouse gas emissions, Governor Schwarzenegger has steered the state regulatory agencies in the direction of an international cap and trade type program by issuing a new

executive order related to AB 32 in October 2006. The executive order<sup>41</sup> specifies that:

- The California Secretary for Environmental Protection shall create a Market Advisory Committee of national and international experts to make recommendations to the State Air Resources Board on or before June 30, 2007, on the design of a market-based compliance program.
- The Air Resources Board shall collaborate with the California Secretary for Environmental Protection and the Climate Action Team to develop a comprehensive market-based compliance program with the goal of creating a program that permits trading with the European Union, the Regional Greenhouse Gas Initiative and other jurisdictions.

The executive order appears to be well in line with the text of AB 32 and cites "numerous studies" by institutions such as U.C. Berkeley, Stanford, and the Pew Center on Global Climate Change that indicate that market-based policy mechanisms, such as emissions trading, are the most efficient and effective policy tools to address climate change.

California Governor Schwarzenegger has already met with New York Governor Pataki to discuss ways that the California market mechanism for climate change can potentially tie in with the Regional Greenhouse Gas Initiative's market-based cap and trade system. Nonetheless, the extent to which these two systems can be integrated remains to be seen.

In light of the passage of AB 32, on November 1, 2006 the California Public Utilities Commission indicated via an administrative law judge's ruling that they will develop a model rule to effectuate a state-wide load-based greenhouse gas cap and trade program for the electricity sector. The rulemaking will be undertaken as part of the Commission's existing Docket No. R.06-04-009<sup>42</sup>. PacifiCorp has been an active participant within this docket.

#### **D. Idaho Carbon Sequestration Advisory Group**

Idaho's Carbon Sequestration Advisory Committee<sup>43</sup> was formed by legislature in 2002 to address growing concerns related to carbon emissions and greenhouse gases. The Idaho Soil Conservation Commission (ISCC) was selected to facilitate committee activities as set forth in Idaho Code section 22-5202.

The Committee is currently partnering with several carbon sequestration entities, including the National Carbon Offset Coalition and the Big Sky Regional Partnership in an effort develop a viable carbon market for Idaho's private agriculture and forest landowners.

---

<sup>41</sup> <http://gov.ca.gov/index.php?/press-release/4447/>

<sup>42</sup> The California PUC final Emissions Performance Standard Staff Workshop Report, which includes the latest staff straw proposal, is posted on the PUC website at: [www.cpuc.ca.gov/static/energy/electric/climate+change](http://www.cpuc.ca.gov/static/energy/electric/climate+change). The direct link to the Report is [www.cpuc.ca.gov/published/REPORT/60350.htm](http://www.cpuc.ca.gov/published/REPORT/60350.htm).

<sup>43</sup> Idaho Carbon Sequestration Advisory Committee, [http://www.scc.state.id.us/CS\\_Committee.htm](http://www.scc.state.id.us/CS_Committee.htm)

### **E. Montana Climate Change Advisory Committee**

On December 13, 2005 Governor Schweitzer issued a letter directing the Montana Department of Environmental Quality (MT DEQ) to establish a Climate Change Advisory Committee (CCAC)<sup>44</sup>, a broad based group of Montana citizens appointed by the Governor to develop a state climate action plan by July 2007. Under MT DEQ’s direction, this initiative will examine state level greenhouse gas reduction (GHG) opportunities in all sectors in Montana, and take into consideration opportunities to “save money, conserve energy, and bolster the Montana economy.” The Center for Climate Strategies (CCS) will work in partnership with MT DEQ to provide facilitation and technical support for climate action planning process to meet these goals.

The goals of this process include:

1. Development of a current and comprehensive inventory and forecast of GHG emissions in Montana from 1990 to 2020;
2. Development of a comprehensive set of individual policy recommendations to the Governor to reduce GHG emissions in Montana.

The CCAC process will seek (but not mandate) consensus on these findings and recommendations. Statewide GHG reduction goals, to the extent that they are developed, will be based on further discussions with MT DEQ and this group.

### **F. Oregon Carbon Allocation Task Force**

On August 29, 2005, Oregon Governor Ted Kulongoski announced his appointment of the Carbon Allocation Task Force<sup>45</sup>. The Governor’s Advisory Group on Global Warming recommended the formation of this Task Force in the Oregon Strategy for Greenhouse Gas Reductions, which was published in 2005<sup>46</sup>. The Governor has stated a goal for Oregon to arrest the growth of greenhouse gas emissions by 2010, to reduce the greenhouse gas emissions to 10 percent below 1990 levels by 2020, and to reduce them to levels 75 percent below 1990 emissions by 2050.

The purpose of the Task Force is to examine the feasibility of, and develop a design for, a load-based carbon allowance standard for Oregon. This standard would reduce total amounts of carbon dioxide and other greenhouse gas emissions due to consumption of electricity, petroleum and natural gas by Oregonians in a deliberate, predictable, effective, equitable and verifiable manner.

The priority of the Task Force will be to develop a carbon allocation standard that limits and reduces over time the carbon dioxide emissions from the use of electricity in Oregon as it is supplied by utilities. A carbon allocation standard would make initial allocations to the demand side of the electricity system—to the distribution companies or other load-serving entities that generate their own power or purchase from generators and supply

---

<sup>44</sup> Montana Climate Change Advisory Committee, <http://www.mtclimatechange.us/>

<sup>45</sup> Oregon Carbon Allocation Task Force, <http://www.oregon.gov/ENERGY/GBLWRM/CATF.shtml>

<sup>46</sup> “Oregon Strategy for Greenhouse Gas Reductions”, see <http://www.oregon.gov/ENERGY/GBLWRM/Strategy.shtml>

power to ultimate customers<sup>47</sup>. The secondary priority is to ensure that this standard does not increase emissions inadvertently from the natural gas utility sector. The third priority is to look toward the application of a carbon or greenhouse gas standard to major industries in the state. On January 9, 2007, the Task Force provided the Governor with its recommendation for consideration during the 2007 legislative session.

### **G. Oregon Public Utilities Commission Activity Related to Carbon**

On January 8, 2007, the Oregon Public Utilities Commission issued an order within the Integrated Resource Planning docket UM 1056.<sup>48</sup> The Commission has adopted a set of guidelines for which the Order provides some explanation. Also the Order is effective immediately and specifically applies to PacifiCorp's upcoming Integrated Resource Plan. The Order generally requires more comprehensive analysis in future Plans and updates (especially on environmental issues). It also signals the opening of several new dockets, generally consistent with the Commission's proposed goals and objectives for 2007-08.

First, the Commission is opening a rulemaking to implement its Integrated Resource Plan Order. Second, the Commission is opening an investigation to review the treatment of carbon dioxide risk in Integrated Resource Plans (per footnote 11, this will apply to future Requests for Proposals), which will ultimately replace the analysis required in Order 93-695. Third, the Commission noted in footnote five, that it had committed to explore a carbon dioxide emissions performance standard for long-term power supplies – akin to California's Senate Bill 1368 and the 1,000 pounds of carbon dioxide per megawatt-hour standard proposed by the California Public Utilities Commission -- in adopting the Joint Action Framework on Climate Change, and that this investigation would follow the proceeding on carbon dioxide risk in Integrated Resource Plans. Fourth, the Commission noted in footnote 9 that they expected Staff to explore in a future proceeding the Commission's objective of ensuring that utilities consider energy efficiency, distributed generation and pricing options as resource alternatives. Fifth, the Commission noted in footnote 10 that its authority to change the level of public purpose funding was the subject of UM 1169, which has been on hold pending the completion of this docket, suggesting that the Commission may revive the docket.

On January 16, 2007, the Oregon Public Utilities Commission issued an order within the Draft 2012 Request for Proposals docket UM 1208.<sup>49</sup> In the Order the Commission concluded PacifiCorp's Draft 2012 Request for Proposals was not aligned with the company's acknowledged integrated resource plan (e.g., the 2004 Integrated Resource Plan), and that the company failed to demonstrate the need for 1,109 megawatts of base load resources. Based on these findings, the Commission concluded PacifiCorp's request for approval of its Draft 2012 Request for Proposals should be denied. As far as the issues raised during the proceeding regarding greenhouse gas emissions, the Commission stated, first that it shared the concerns expressed by several parties regarding PacifiCorp's

---

47 The first baseline for the state would probably be around 24 million tonnes of carbon dioxide emissions. The cap would decline over time. The 2020 limit would be 18.6 million tonnes (10 percent below 1990 levels) and the 2050 limit would be about 5 million tonnes (75 percent below 1990 levels).

48 See, <http://apps.puc.state.or.us/edockets/orders.asp?ordernumber=07-002>

49 See, <http://apps.puc.state.or.us/edockets/docket.asp?DocketID=12698>

ability to sell surplus energy into the wholesale market, especially to states, which have (California) or are considering (Oregon and Washington) adopting constraints on greenhouse gas emissions. (see, pages 6-7) Second, regarding PacifiCorp's handling of carbon risk (e.g., the \$8 carbon adder), the Commission agreed with staff and declined to resolve the issue at the present time. The Commission indicated it will address the carbon risk question within a separate proceeding which evaluates it within the context of Integrated Resource Planning (see, Order No. 07-002, docket UM1056). "Issues related to the expected costs, risks and uncertainties of coal resources, particularly if they are not designed to capture and sequester [carbon dioxide] emissions, will be addressed in these forums." (see, page 9)

#### **H. Utah Blue Ribbon Advisory Council on Climate Change**

On August 25, 2006, Utah Governor Jon Huntsman Jr. held the first meeting of the Blue Ribbon Advisory Council on Climate Change. PacifiCorp is a member of the Advisory Council. The governor invited 15 people to be a part of the council. Their interests range from the coal and electric power industries to the Sierra Club and local mayors. The council's purpose is to review the science of climate change as it relates to Utah and to look at potential policies that could be implemented to achieve the goals of the Utah Energy Initiative.

The initiative was created with the help of Laura Nelson, energy policy adviser to the governor. Nelson is now going to take all the information and put together a proposal for moving forward during the next meeting, which has yet to be scheduled.

#### **I. Utah Public Utilities Commission Activity Related to Carbon**

On December 21, 2006, the Public Service Commission of Utah issued its suggested modifications to PacifiCorp's Draft 2012 Request for Proposals for baseload Resources docket 05-035-47.<sup>50</sup> Within the suggested modifications was a discussion on the modeling and allocation of carbon dioxide regulatory risk. The Commission stated it recognizes there is significant value derived from understanding the different potential costs associated with resource planning scenarios including how carbon dioxide emissions will be dealt with in future years. They also recognized that even if imputed as part of the evaluation process, no actual costs would be incurred until Congress acts to impose some type of tax, cap or other constraint. Recognizing that costs are uncertain, and do not currently exist, the Commission stated the issue becomes identifying the correct reasonable premium, if any, to pay to mitigate these uncertain costs. However, the Commission concluded docket 05-035-47 has not developed a sufficient record to enable the Commission to decide at this point, an appropriate carbon dioxide cost assumption to be used.

Faced with an insufficient record and such a significant variation in possible outcomes, the Commission stated its support for the use of a full range of potential carbon dioxide costs in all but the initial short list stage of the evaluation process so the opportunity costs

---

<sup>50</sup> See, <http://www.psc.state.ut.us/elec/06orders/Dec/0503547csm.pdf>

of selecting one technology over another are made clear and explicit in the selection process. The Commission went on to suggest PacifiCorp use a process where the initial short list is ranked based upon lowest cost by each fuel type within each eligible category. This would ensure the lowest cost natural gas as well as lowest cost coal bids advance to the stage of the evaluation that considers the full range of potential carbon dioxide costs. Further, the Commission suggested PacifiCorp report the full blinded present value revenue requirement results of each of the different carbon dioxide cost scenarios to the Commission and intervening parties, at the following steps of the evaluation process: 1) at Step 2, CEM, production cost run (at a minimum this would require each of the optimal portfolios for each of the carbon dioxide cost scenarios to be reported - along with the supporting results of the analysis); and 2) at Step 3, risk analysis, again an optimal list for each different carbon dioxide cost scenario. Thus, at each point in the evaluation process the Commission believes it, and the intervening parties, will have the best estimates of the full opportunity cost of each competing technology and approach, as well as the supporting evidence leading up to each of the optimal short lists.

On the issue of carbon dioxide risk allocation, for asset-backed power purchase agreement (PPA) bids, asset purchase and sales agreement bids and the Company's benchmark, the Commission recommended that the change in law risk be the same for the bidder of a PPA as for PacifiCorp. That is, the same standard of facts and same contract prudence review would apply to a PPA and the Company's resources for complying with a change in law associated with carbon dioxide. That is, changes to contract pricing based on carbon dioxide compliance costs will be reviewed (and approved) by the Commission prior to being passed through to customers. This will ensure ratepayers, with respect to this issue, are indifferent between a Company-owned resource and contractual supply.

#### **J. Washington Climate Change Executive Order**

On November 21, 2006, PacifiCorp staff participated in a meeting with Washington Governor Gregoire's Chief of Staff and various department heads. The meeting was arranged with the membership of the Association of Washington Business. The Governor expressed an interest in drafting an Executive Order related to climate change. Although the particulars of the draft Executive Order have not been shared, based upon conversations between the Governor's staff, the Department of Ecology, and staff from the Association of Washington Businesses, they can be broadly described as follows:

1. Clean Energy Job Creation Goals – create 24,000 jobs by 2020
2. Reduce State-Wide Greenhouse Gas Emissions:
  - a) 10% reduction in 2002 emissions by 2020 (roughly equivalent to 1990 levels);
  - b) another 60% by 2050 (for a total of 70% below 2002 levels; and
  - c) seven separate specific targeted efforts for reductions, including electricity, forestry and agriculture sequestration, and geologic sequestration
3. Participation in the development of a regional and/or federal cap and trade system

4. Preparation, for anticipated impacts (e.g., rising ocean levels, scarcity of water resources, and etcetera.)

### **K. Wyoming Carbon Sequestration Advisory Committee**

The Carbon Sequestration Advisory Committee<sup>51</sup> was created through state legislation under the Wyoming Carbon Storage Law. PacifiCorp is a member of the committee. The work of the committee is authorized for eight years from 2001 until 2009. The main goals of the committee are:

- To provide the state with scientifically-sound information and advice concerning management practices and economic opportunities to store carbon in Wyoming’s agricultural and forest lands.
- Educate the citizens of Wyoming about carbon sequestration, through conferences, presentations, demonstration sites and published media among other means.

Committee members are appointed by the governor and include people from a wide variety of occupations including agricultural producers, state agency officials, power company executives, federal employees and professors.

### **L. Wyoming Infrastructure Authority**

In the 2006 session the legislature expanded the Wyoming Infrastructure Authority’s<sup>52</sup> role to become directly involved in financing and promoting advanced coal technologies related to electric generation. On July 17, 2006 the Wyoming Infrastructure Authority (WIA) issued a Request for Proposals, seeking to establish a public private partnership to carry out a project (or projects) to demonstrate production of energy from coal mined and converted to electrical power in the State of Wyoming using integrated gasification combined cycle (IGCC) technology. The Wyoming Pipeline Authority is willing to provide support regarding the transporting of carbon dioxide, as well as pipelines to support other commodities that may be produced by the project. This support can include financing, owning and operating pipelines. The State can also support the carbon dioxide sequestering aspect of the project, through the Enhanced Oil Recovery Institute, the State Geological Survey, the Oil and Gas Conservation Commission and other agencies.

### **M. Local Governments**

As of December 28, 2006, 353 mayors have signed on to the U.S. Mayors Climate Protection Agreement. Under the Agreement, participating cities commit to “strive to meet or beat the Kyoto Protocol targets in their own communities.”<sup>53</sup>

---

<sup>51</sup> Wyoming Carbon Sequestration Advisory Committee, <http://www.wyomingcarbon.org/>

<sup>52</sup> Wyoming Infrastructure Authority, <http://www.wyia.org/home.htm>

<sup>53</sup> U.S. Mayors Climate Protection Agreement, <http://www.seattle.gov/mayor/climate/>.