

**STRAW PROPOSAL SUBCOMMITTEE**  
**AUGUST 29, 2006**  
**MATRIX OF MAJOR ISSUES FOR A CARBON CAP**  
**FOR CONSIDERATION BY THE GOVERNOR’S CARBON ALLOCATION TASK FORCE**

**Introduction**

The *Oregon Strategy for Greenhouse Gas Reductions* by the Governor’s Advisory Group on Global Warming (Dec. 2004) recommended in measure “GEN-2” that the “Governor create a special interim task force to examine the feasibility of, and develop a design for, a load-based allowance standard. This standard would reduce total amounts of CO<sub>2</sub> and other GHG emissions due to consumption of electricity, petroleum and natural gas by Oregonians in a deliberate, predictable, effective, equitable and verifiable manner. The task force should be directed to provide the Governor with its recommendation in time for legislative action, if necessary, in the 2007 session.” (pp. 68-71).

This matrix is prepared for consideration by the Carbon Allocation Task Force (CATF) at its September 7, 2006, meeting. The goal is to summarize briefly the discussions of the CATF straw proposal subcommittee, which met six times this summer. Both the “median” and “alternative” positions are interim and are provided to facilitate CATF discussions. The median position is the position supported by a majority of subcommittee members in attendance, in the judgment of the chair. However, no votes were taken. Some members stated that they were giving their opinions, but that the organization that they represented may not have taken a formal position on a specific issue. Support for how to structure the straw proposal in one way or another should not be construed as support for, or opposition to, the overall proposition of a state load-based or other cap on CO<sub>2</sub>. The alternative positions are sometimes different ways to complete the median position rather than distinct alternatives. Sometimes the alternatives are mutually exclusive, but sometimes they could be combined.

These issues have been presented in various papers that are posted along with the agendas for the meetings of the Carbon Allocation Task Force at [egov.oregon.gov/ENERGY/GBLWRM/CATF-meetings.shtml](http://egov.oregon.gov/ENERGY/GBLWRM/CATF-meetings.shtml) and for the Straw Proposal Subcommittee at [egov.oregon.gov/ENERGY/GBLWRM/CATF-StrawMtgs.shtml](http://egov.oregon.gov/ENERGY/GBLWRM/CATF-StrawMtgs.shtml).

<b>Issue</b>	<b>Median Position</b>	<b>Alternative Positions</b>
1. Applicability of a Carbon Cap	A load-based CO <sub>2</sub> cap would apply to load serving entities (LSEs) that provide electrical power, including consumer-owned (COU) and investor-owned utilities (IOU), energy service suppliers (ESS), and self-generators. (See issue #20 regarding size thresholds for self-generators. Other sectors are addressed in issue #18 and other greenhouse gases are addressed in issue #19.)	a) Exclude small COUs from the declining cap (except for shifts of covered loads that move to COUs or new large single loads, as defined for the cap.). b) If any COUs are excluded from a cap, limit their acquisition of new generating resources to renewable resources, except for necessary integrating resources.
2. Carbon accounting methodology.	Methodology for calculating emissions will be based on the Oregon Public Utility Commission's (OPUC) emissions label methodology combined with the Washington Department of Community, Trade and Economic Development's methodology for firm purchases from the Bonneville Power Administration.	
3. Base years for cap	Average of the emissions from the two non-extreme years of 2002 through 2005. This sets the initial total number of allowances.	Average of the emissions from the three non-extreme years of 2002 through 2006.
4. Rate of decline in the cap	Hold cap level from 2009 through 2011, then decline in three equal steps to 2020 target.	a) Hold cap level from 2009 – 2015; then decline in one step to 2020 target. b) Allow capped entities to petition the regulatory authority to approve different reduction schedule as long as the cumulative reductions were greater than those under the standard rate of decline of cap and reductions were not materially delayed.
5. Allocation of (free) allowances.	95 percent of allowances allocated for free.	
6. Auction of allowances	a) 5 percent of allowances auctioned annually in semi-annual auctions. b) Auction sets one final price for all allowances in that auction. c) First-in-line access to allowances by COUs, ESSs and self-generators with the remainder to IOUs at the same price. Need for "first in line" allowances determined by rule.	a) Specify minimum number of allowances that must be auctioned, but leave maximum to rule-making. b) 20 percent auctioned.

<b>Issue</b>	<b>Median Position</b>	<b>Alternative Positions</b>
7.1. Use of auction revenues.	Funds earmarked for energy efficiency, renewable energy and offsets.	<ul style="list-style-type: none"> <li>a) Use 20% through an RFP for statewide programs.</li> <li>b) Regulatory authority would have option to direct that some portion of funds go to support broad programs that would achieve CO<sub>2</sub> reductions but not necessarily in a specific amount for a particular LSE, e.g. market transformation.</li> <li>c) Earmarked for on-system emission reductions (energy efficiency and renewable energy, but excluding offsets).</li> </ul>
7.2 Distribution of auction revenues.	<ul style="list-style-type: none"> <li>a.) Distribute funds proportionately to base years emissions.</li> <li>b.) Funds to be distributed as determined by the alternatives (a) – (c).</li> </ul>	<ul style="list-style-type: none"> <li>a) Funds go proportionately to LSEs or joint operating agencies (for COUs).</li> <li>b) Funds go to NGO with requirement that they be spent on behalf of LSEs and in proportion to base years' emissions.</li> <li>c) Funds go to entities that are adversely affected by the cap, e.g. schools, low-income, or other.</li> </ul>
8. Banking	Allow banking of excess allowances with a requirement that capped entities surrender oldest allowances first—"first-in-first-out."	
9. Multi-year compliance periods.	Four 3-year compliance periods: (1) 2009 – 2011; (2) 2012 – 2014; (3) 2015 - 2017, and (4) 2018 -2020.	Two compliance periods: (1) 2009 – 2015; and (2) 2016 - 2020.
10.1. Alternative compliance payment (ACP) level	Have an alternative compliance payment for failure to surrender an adequate number of allowances for a compliance period..	<ul style="list-style-type: none"> <li>a) ACP at \$40 per tonne</li> <li>b) ACP at less than \$40 per tonne</li> </ul>
10.2. Use of alternative compliance revenues.	Funds dedicated to same uses as auction revenues and distributed in the same manner. (See 7.1 and 7.2)	See 7.1 and 7.2.
11. Trading	Trading among Oregon capped entities only. (See also issue # 18.)	

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12. Offsets	a) Offsets allowed with a limit on the amount, which would be tied to each capped entity's baseline emissions or required reduction, with the limit set in legislation. b) Offsets allowed from CO <sub>2</sub> , CH <sub>4</sub> , N <sub>2</sub> O, PFCs, SF <sub>6</sub> , and HFCs, based on global warming potential as expressed as CO <sub>2</sub> -equivalent.	a) No limit on offsets. b) Offsets limited to a percentage of some metric. c) Offset limited to a percentage of some metric and declining each compliance period. <i>(Metrics proposed in next box.)</i> ----- d) Offsets limited to 25 percent of a capped entity's <u>reductions</u> for a compliance period. Reductions would be zero percent for period 1, ~4 percent for period 2, ~10 percent for period 3, and ~15 percent for period 4. Therefore the allowable offset percentage of each would be 0%, 1%, 2.5% and 3.75%, respectively. e) Offsets limited to a percentage of the capped entity's <u>baseline</u> in each compliance period with limits set in legislation, e.g. less than 2 percent. ----- f) Offsets taken in equal increments in tonnes, e.g. a system-wide total of one million tonnes allowed proportionately to the capped entities' baselines in each of the compliance periods.
13. Role of renewable portfolio standard (RPS)	a) On-system renewables count for both carbon cap and RPS. b) Unbundled renewable energy credits (RECs) would be counted per alternative selected— (a) or (b) to the right..	a) Unbundled RECs can be counted as an offset (subject to offset limitations) when also used to comply with an RPS. b) Unbundled RECs can only be used in one system or the other.
14. Borrowing of allowances from future compliance periods.	Not allowed	a) See alternate for # 4, which is a form of pre-approved borrowing. b) Allow borrowing.

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15. Provide a circuit breaker if the total amount of alternative compliance payments (ACP) exceeds a level set in legislation	If the circuit breaker were tripped for a compliance period, then the number of allowances issued would stay flat for one year into the succeeding compliance period. Thus, if the total number of ACPs purchased by capped entities exceeds (a) the total state CO <sub>2</sub> allowances normally issued during the compliance period plus (b) all banked (and borrowed) allowances carried into the period by more than 10 percent in any one compliance period, the state would issue allowances in the next year equal to the allowances it issued in the last year of the compliance period in which the circuit breaker was triggered. Allowances issued in subsequent years would be unchanged from the original path.	
16. Accelerate decline in state cap if auction price is below some level.	No	
17. Adjustments	<ul style="list-style-type: none"> <li>a) <u>Load shift</u>: Allocated allowances would transfer with shifts in load between two LSEs at the allowance rate (CO<sub>2</sub>-tonnes per MWh) of the LSE that initially lost load.</li> <li>b) <u>New entrants</u>: Hold an allowance pool during each year for new entrants, i.e. new self-generating loads, and new large single loads; and, then add unused allowances to the second semi-annual auction.</li> <li>c) Set the sizes of the allowance pool and new large single loads in rule.</li> <li>d) <u>Hydro adjustment</u>: Provide a hydro-mechanism that extends the compliance period by one year for each year of “exceptionally bad hydro generation” (to be defined by rule). This would not change the cap.</li> </ul>	Set the sizes of allowance pool and new large single loads by legislation.

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18. Other sectors: These are emissions from fossil fuel use in the residential, commercial and industrial sectors, e.g. natural gas, oil and coal. These sectors account for 20 percent of Oregon's total CO <sub>2</sub> emissions: 12 percent industrial; 5 percent residential; and 3 percent commercial.	<ul style="list-style-type: none"> <li>a) Apply a fossil-fuel charge—"Carbon Reduction Fund" (CRF)—for all stationary emitters (revenues applied to carbon reduction actions with the mechanisms to be determined).</li> <li>b) Large stationary emitters (e.g. more than 15,000 tonnes of CO<sub>2</sub> emitted per year) could irreversibly opt into the carbon cap system in lieu of paying into the CRF. Their baseline emissions and allowances would be added to the cap.</li> <li>c) There would be mandatory reporting of emissions by large stationary emitters</li> <li>d) <i>A proposal for the method of collecting and distributing the CRF and the size of the CRF would be developed by the Straw Proposal Subcommittee prior to the October 5, 2006, meeting of CATF.</i></li> </ul>	<ul style="list-style-type: none"> <li>a) Only mandatory reporting for large stationary emitters beginning in 2008. The Legislature would create a task force to recommend legislation by 2009 for sectors not covered in the initial legislation. (See also # 19.)</li> <li>b) Cap emissions from natural gas retail sales instead of having a CRF.</li> <li>c) Call it a "Climate Protection Fund" instead.</li> </ul>
19. Other gases to be capped	Establish a task force to propose legislation by 2009 (if any) on other greenhouse gasses to be capped or other regulations or incentives to reduce emissions of CH <sub>4</sub> , N <sub>2</sub> O, PFCs, SF <sub>6</sub> , and HFCs.	
20. Threshold for including self-generators in load-based cap.	<ul style="list-style-type: none"> <li>a) 25 MW capacity for existing self-generators.</li> <li>b) 5 MW capacity for new self-generators (post 2006).</li> <li>c) Need to consider consistency between application of thresholds for self-generators, small stationary emitters, and COUs.</li> </ul>	5 MW capacity for all sources.
21. Administrative roles	Oregon Department of Energy would adopt rules and administrative procedures.	
22. Funding administrative costs	Collect a small administration fee per allowance issued.	

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23. Oregon Public Utility Commission.	Statute would require OPUC to incorporate carbon cap compliance in ratemaking decisions and integrated resource plan acknowledgments for IOUs.	<ul style="list-style-type: none"> <li>a) Provide a safe harbor for actions that cost less than 50% of recent allowance auction prices.</li> <li>b) No safe-harbor; conduct prudency review of all expenditures; require demonstrated emission reductions as part of review.</li> <li>c) Set an emission performance standard at the level of CO<sub>2</sub> emissions of the most efficient natural gas combined cycle combustion turbine for permitting cost recovery for new generating facilities and new long term procurement contracts.</li> </ul>
24. Federal greenhouse gas regulations.	Federal action that requires or results in absolute, mandatory reductions in the same greenhouse gas emissions capped by Oregon (including indirectly with rules targeting up-stream fuel supplies) would result in a review and proposal for legislative changes. There would be no delegated authority to pause the cap.	<ul style="list-style-type: none"> <li>a) An automatic pause in reductions in the CO<sub>2</sub> cap until the next legislative session if there were federal legislation with mandatory reductions of CO<sub>2</sub> emissions over time.</li> <li>b) Same as a) but only initiate a pause at the discretion of the administrative agency.</li> <li>c) A stringency clause that requires that Oregon's standard be no more stringent than federal regulation.</li> <li>d) Sunset provision once overlapping federal legislation is promulgated.</li> </ul>