

CATF STAFF DISCUSSION PAPER

Recycling Auction Revenues

July 26, 2006

The Straw Proposal Subcommittee asked ODOE staff to craft a straw proposal for recycling the auction revenues to be used for incremental costs of reducing CO₂ emissions. With five percent of the allowances auctioned the annual funds would likely range from \$10 to \$35 million per year (see attached MS Word document “auction_revenues.doc”).

The primary alternative would be to have the funds go to a non-governmental entity. If the revenues were to be recycled to LSEs, staff recommends they be allocated based relative performance of LSEs on achieving CO₂ reductions from their baseline emission levels. As envisioned, this would be on-system reductions (not including offsets). Generally, on-system reductions provide more economic development and learning-by-doing benefits to Oregon.

Also attached to this e-mail from Phil Carver is a spreadsheet (recycling-auction-\$.xls) with a toy example of how this might work. The example uses two measures of accomplishment:

1. The LSE’s percent reduction from its baseline emissions and
2. The LSE’s percent of total reductions by all LSEs.

In the example (lines 17-21), two of the three utilities have reductions. A utility without reductions would receive no recycled funds. Utility A is much more carbon intensive and is much larger than Utility C. The two example utilities have significantly different measures of accomplishment. The two raw percentages are simply added and the ratio of the sum is used to allocate auction revenues. The allocation would occur following the end of each compliance period. The table below illustrates the calculation as shown in the spreadsheet.

UTILITY	A	C
Utility's Percent Reduction	10%	20%
Percent of Total Reductions	<u>98%</u>	<u>2%</u>
Total of Percents	1.08	0.22
Share of Total of %s	83%	17%

For the first compliance period the straw proposal requires no reductions from the baseline. If there were zero or insignificant reductions for the first compliance period, the auction revenues could be:

1. Held over to the next compliance period,
2. Given to an existing non-governmental agency,
3. Targeted to particular sectors such as low-income, schools, or community renewables, or
4. Distributed to LSEs based on baseline emissions.

1 **TOY EXAMPLE OF ALLOCATION OF AUCTION REVENUES BASED ON PERFORMANCE**

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	UTILITY	A	B	C	Total
4	BASE EMISSIONS	100	20	1	Metric Tons per Year
5	BASE LOADS	50	30	5	MWh
6	SHARE OF EMISSIONS	83%	17%	1%	121 MT/Yr.
7	SHARE OF LOADS	59%	35%	6%	85 MWh
8	EMISSION RATE	2.00	0.67	0.20	Tonnes/MWh
9					
10	Actual Emissions	90	25	0.8	Metric Tons per Year
11	Actual Load	55	35	8	MWh
12	Actual Emissions Rate	1.64	0.71	0.10	Tonnes/MWh
13					
14	Reduction	10.0	-5.0	0.2	Metric Tons per Year
	Total Reduction (negative reductions don't count)				10.2
15					
16					
17	Utility's Percent Reduction	10%		20%	
18	Percent of Total Reductions	<u>98%</u>		<u>2%</u>	100%
19	Total of Percents	108%		22%	
20					
21	Share of Total of %s	83%		17%	100%
22	Total Auction Rev. for Yr.				\$ 3.00 Million \$
23	Share of Auction Rev.	\$ 2.49		\$ 0.51	Million \$