

Carbon Allocation Task Force Subcommittee Meeting

June 15, 2006

Two World Trade Center, Oregon Room
121 SW Salmon, Portland, OR

Attendees: Jeremiah Baumann, Mike Burnett, Angus Duncan, Michael Early, Jim Edelson, Kyle Davis, Steve Grover, Wayne Lei, Thad Miller, and Tom O'Connor
Staff: Phil Carver and Sam Sadler
Technical Advisors: Hal Nelson

Chair: The subcommittee members elected Angus Duncan as chair.

Agendas: The subcommittee revised the list of agendas. The revised list is attached.

Applicability: The subcommittee agreed that the immediate topic of discussion was a load-based CO₂ cap on the electricity sector.

Other GHG and other sectors: On the issues of how to deal with sectors other than electricity and other greenhouse gases, the subcommittee moved those issues to the August 11 meeting. There was a discussion of whether the initial proposal should address an expanded program or leave it to future legislative action, but there was no resolution on that matter. There was a discussion of whether to include reporting of other greenhouse gases, but no resolution. There was also a discussion of the need for more detailed consideration of how natural gas fuel switching might fit in a cap.

Base years: The subcommittee generally agreed that the base years should be some combination of 2002, 2003, 2004, and 2005. Different techniques were discussed: averaging all; dropping highest and lowest years and averaging. There was discussion of whether to account for “out-of-the-ordinary-circumstances” for individual LSEs, but there was no resolution. It would be up to an LSE to make a case that the final base-year scheme that was chosen was unfair to it.

Rate of decline: Members wanted to see energy system data from Nelson’s model before deciding on a rate of decline. For the time being, they kept place holders for a straight decline from 2009 to 2020; holding the cap flat for three years, then a straight decline to 2020 beginning in 2012; and, holding the cap flat for six years, then a straight decline to 2020 beginning in 2015. O’Connor noted that COUs are locked into BPA contracts until 2012.

There was a discussion of how RPS requirements might be seen has a path from which the CO₂ cap would decline. Members requested that staff prepare a wedge graph that shows the baseline, increased energy efficiency, RPS reductions, and additional reductions required by a declining cap. There was also a discussion of how delaying the decline in the cap might forego induced technological changes that would be driven by an earlier decline in the cap. The concern was that a cap that did not begin to decline for six

years might not be a sufficient inducement for LSEs to begin to anticipate the reductions in their infrastructure decisions.

Allocation: There was general agreement that allocation of free allowances should be based on historical emissions and that none should be based on load. Edelson raised the need for a mechanism that would adapt to changes over time as LSEs circumstances diverged from the historical circumstances that were the basis for the initial allocations.

Auctions. There was no general agreement on whether to have auctions of some of the allowances. Davis, Lei and O'Connor stated that their LSEs would prefer no auction. Edelson and others supported an auction.

Some proposed an increasing auction amount of allowances over time as a way to deal with divergence from initial conditions. As circumstances changed among LSEs, some might need more access to auctioned allowances and others might need less. An increase in the amount of allowances auctioned would provide a mechanism for new entrants to obtain allowances.

On the other hand, Davis stated that regulatory predictability was very important. In order to make long term infrastructure decisions, LSEs need to know how many allowances they will have in future years without the uncertainty of having to buy some in an auction.

O'Connor noted the difficulty of very small COUs participating in an auction. He also noted that the experience of COUs with various financial schemes in the past had been negative. He was troubled that the market in Oregon would be small. He recommended that any revenues from auctions or alternative compliance payments, if those mechanisms are used, should be kept in the local community.

There was some discussion of other uses of auction revenues in addition to the CATF placeholder that they should be used to achieve the goals of the program to reduce greenhouse gas emissions. There was a discussion of using auction revenues to cover administrative costs of the regulatory agency or the LSEs. A simple per-allowance fee could also cover the former, and, there was disagreement over whether the LSEs costs were already included in their estimated cost of compliance. Miller suggested that revenues could be used to cover administrative costs for an offset mechanism. There was also a discussion of whether there was a need for auction revenues to fund conservation and renewable energy projects. However, there was no attempt to resolve what to do with auction revenues until there was a decision on whether to have an auction. There was also recognition that uses of revenues would be part of the discussion of the alternative compliance payment on June 23rd.