

Carbon Allocation Task Force Subcommittee Meeting

June 23, 2006

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

Attendees: Angus Duncan and Carol Brown
Staff: Phil Carver and Sam Sadler
Technical Advisor: Hal Nelson

(Jeremiah Baumann and Jim Edelson provided written comments on the agenda items because they could not attend in person.)

Banking. There was a discussion of the placeholder to allow unlimited banking of allowances, with a proviso of first-in, first-out when allowances are surrendered for compliance. Angus Duncan suggested a modification that allowances could only be banked indefinitely by the original holder of the allowance. If an LSE sold an allowance, that allowance would expire following the end of the subsequent compliance period. The purpose of that mechanism is to prevent an LSE from parking allowances with another entity to avoid first-in, first-out. Otherwise, allowances could be held by another company indefinitely if that company had no requirement to surrender them for compliance.

Sam Sadler brought up staff's proposal that all unused allowances from one compliance period be surrendered during the next compliance period. If there were still unused allowances that had been issued in the latter compliance period, they could be carried over to the next period, etc.

Participants noted that the differences between the two approaches are minimized if there is no trading outside the system. There was agreement that the interaction of banking and trading should be considered at the next meeting when trading is on the agenda. Also, once we have discussed all the flexibility mechanisms, we should see how they interact.

Hal Nelson noted that he knew of no carbon trading system that used the first-in, first-out approach or that allowed unlimited banking. He added that it was an issue of supply: with unlimited banking, there is an increase in supply and a potential devaluation of the value of allowance, or at least uncertainty about of the value of allowances.

Duncan said that the existing placeholder, with the proviso about allowances traded outside the system expiring with the next compliance period, should remain.

Multi-year compliance period. There was general agreement that the placeholder of a 3-year compliance period was reasonable. In addition to the inherent flexibility of allowing averaging emissions over three years, there was a discussion of allowing an extension in a compliance period due to unusual hydro years. One suggestion was that the extension should be year-by-year, not to exceed three years, for example. The extension would not change the cap.

The comments from Jeremiah Baumann and Jim Edleson noted that the water regimen will be changing with climate and recommended that we not end up in exempting LSEs from reducing GHG emissions because the hydro system is changing because of GHG emissions.

There was a discussion of whether to define an “unusual hydro year” in statute or leave it to rule making. Sadler noted that a temporary rule could be adopted on short notice if an extension were justified. Defining “unusual” by rule could also account for what is “usual” in an increasingly variable system.

There was a discussion of what was “unusual,” e.g. a regimen that is more than a 20 percent variation from the “norm,” and for what period the condition must obtain. For example, would the variation have to be longer than for one year or for more than one compliance period? With a 3-year compliance period, it suggests that any extension would be based on the average of the three years, because that is the basis for surrendering allowances. There could also be a limit on how many extensions could be allowed, e.g. one, or up to three 1-year extensions.

The placeholder is for a 3-year compliance period, with three options for extension: 1) account for new hydro conditions when the current hydro contracts are extended (modify baselines); 2) allow a year-by-year extension by rule; 3) define “unusual hydro conditions” in statute.

Alternative compliance payment (ACP). The staff proposed ACP of \$40 (2005\$) per tonne is based on the experience of the European Union’s Emission Trading System, which initially is trading allowances below \$40 per tonne. The EU ETS has an ACP that is about \$50 for the period 2005-2007 and raises to about \$120 for the period 2008-2012. That is the only experience we have of trading in a capped system.

Because the ACP breaks the cap, staff proposed it at a level that it believed would be beyond the usual range of allowance costs. It represents the cost at which the system breaks, not the average cost an LSE would expect to pay. Carol Brown asked whether European situation was comparable to what Oregon could expect. She also asked for information on the supply curve of measures. Hal Nelson’s model will have those data. Duncan suggested that there needs to be more supporting information for where to set the ACP.

There was a discussion of how the ACP would be treated in the IOU regulatory environment. Would it be a penalty that the shareholders pay or would it be recovered from ratepayers. Duncan said that regulatory oversight would have to determine whether an IOU prudently purchased all CO₂ reductions below \$40/tonne. It would only be a penalty against shareholders if the IOU acted in an imprudent manner. Carver noted that the IRP process could acknowledge all measures below \$40/tonne.

This issue also fits in the discussion of regulatory issues on August 11. The allocation standard adds reducing carbon to OPUC's charge of keeping rates low.

The members also discussed the issue of what would happen to revenues raised from ACP. It would be sporadic, both in time and amounts. Duncan suggested that any funds be used for energy efficiency and renewables, not other uses such as administrative costs or R&D. There was discussion of keeping the reductions within Oregon's electricity sector.

There was further discussion that funds from IOUs should be spent in IOU territory, and likewise for COU. However, the funds would not specifically go back to the IOU service territory from when they came. There would be two broad funds, IOU and COU, that could be spent anywhere within the respective two divisions.

On administering ACP funds, it was noted that a stand-alone organization could not be created in anticipation that sometime in the coming decades it might receive funds. For the IOU pool, the Energy Trust of Oregon was suggested as a possible recipient. For COUs, the Oregon Department of Energy was suggested as an administrator for funds that would be targeted to them.

An alternative would be that the funds could go to an existing non-governmental organization if ODOE determined that a suitable one existed, if not the funds would go through ODOE. The statute could identify the type of organization that would be eligible. Nelson suggested that COUs might be able to bid for use of the funds.