

CARBON ALLOCATION TASK FORCE SUBCOMMITTEE

STAFF ASSESSMENT OF OUTSTANDING ISSUES

1. **Applicability** of load-based cap to electricity sector
 - Load serving entities include consumer-owned and investor-owned electric utilities, energy service suppliers, and self-generators (5 MW capacity?).
2. **Base years** for cap and allocation
 - Base years for determining initial cap on emissions and basis for allocation of allowances, based on Oregon Public Utility Commission emissions labels methodology: average of emissions from the two non-extreme years of 2002 through 2005.
3. **Rate of decline** in the cap
 - Hold cap level from 2009 through 2011 or through 2012, then straight-line decline from there to 2020 target.
4. **Allocation**
 - Calculate allowances that the state would distribute for free at 100 percent of CO₂ emissions in the two base years.
5. **Auctions.** Options for auctioning allowances:
 - 5 percent auctioned, 95 percent distributed for free;
 - Specify minimum
 - Set aside initial pool at which COUs can purchase at market-set price.
6. **Use of revenues** and mechanisms for handling revenues
 - If there were an auction, distribute revenues proportional to base years emissions, with funds earmarked for on-system carbon reductions. Not resolved whether funds go to LSEs or to an NGO with requirement that the NGO spend the funds proportionally in the respective LSE territories.
7. **Banking**
 - Allow banking of excess allowances with a requirement that LSEs surrender oldest allowances first, i.e. “first in-first out.”
8. **Multi-year compliance periods**
 - 3-year compliance period; annual allocation and semi-annual auction of allowances.
9. **Alternative compliance payment** of \$40 or (____) tonne.
 - How would the revenues be used to further the goal of reducing carbon emissions?
 - What would be the mechanism for using the revenues?

10. **Trading**
 - Trading among Oregon covered entities only.
11. **Offsets**
 - Offsets allowed with some limit on the amount of offsets, tied to each LSE's baseline or required reduction, which would be set in legislation. Some fraction of offsets would have to be from Oregon. All six categories of greenhouse gases included (CO₂, CH₄, N₂O, PFCs, SF₆, HFCs). There were different views on whether the limit on amount of offsets should grow or decline over time. Offsets would have to be real, quantifiable and additional; implementation of these criteria and protocols to be addressed by rule and administrative action. Other issues deferred to rule making.
12. **Role of renewable portfolio standard**
 - On-system renewables count for both RPS and carbon cap. There were two views on unbundled RECs: 1) RECs can be used in both systems; 2) RECs can only be used in one compliance system or the other.
13. **Borrowing**
 - None
14. **Circuit breaker/accelerator**
 - Circuit breaker could delay the decline in the cap, but many were uncomfortable with a symmetrical **accelerator** that tightens it.
 - Alternate proposal was to increase the amount of offsets that are allowed in lieu of breaking the cap.
15. **Adjustments and updates**
 - Allocated (free) allowances would transfer with load that **shifts** between two load-serving entities (LSEs).
 - Allowance pool held during each year for new large self generators (new entrants) and new large single loads (to be defined), then released through the last auction of the year if not used.
 - Provide for **hydro mechanism** that extends the compliance period by one year for each year of "exceptionally bad hydro generation" (to be defined by rule), e.g. it would allow averaging over four years instead of three. This does not change the annual allocation or cap.