Cost Containment Proposal Oregon Clean Fuels Program Advisory Committee

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Two Tier Cost Containment Mechanism

- Covers both short-term price spikes and long-term unavailability of credits.
- Designed around the Credit Clearance Market (CCM) that is in use in California, with a maximum credit price per metric ton of carbon emitted.
- Once either containment mechanism is triggered, it should be seen as a sign that the program is not functioning as predicted. DEQ should then perform an analysis within sixty days to determine if there is a long-term program viability issue.

Credit Clearance Market

Basic Guidelines

- Suggested ceiling price of $200/MT CO2.
- Banking is allowed as a forward planning tool. Credits do not expire.
- The ability to carry over 10% of last year's obligation without penalty is retained.
- Credit prices are evaluated annually for impact to consumers. Credit price is the most direct measure of cost that could affect consumers (not fuel price which is based on too many factors to be a good indicator of a healthy market).
- Brokers (traders/aggregators) that are not regulated parties or credit generators cannot hold credits for more than one year and must sell their credits into the market during that period.

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Credit Clearance Market

Tier 1 Short Term Spike Relief

- The short-term mechanism triggers when there is an unforeseen credit price spike in the Oregon Market.
- It is a back-up in the event that the program forecasts are not accurate (e.g., lower carbon intensity fuel volume not growing as anticipated and/or petroleum demand is greater than expected, low carbon fuel exists but does not come to Oregon as foreseen, or there is some other unanticipated shortage in credits).
- It is intended to protect consumers from the potential unforeseen circumstances.

Credit Clearance Market

Tier 1 Short Term Spike Relief

- DEQ publishes credit trading data (volumes and prices) monthly.
- If credit prices increase more than 25% from one month to the next, or more than 40% over two consecutive months, this will be considered a "spike". Program targets will be frozen at the previous year's target for the remainder of the compliance period.
- If the ceiling price ($200/MT) is hit at any point during the year the program targets will be frozen at the previous year's target for the remainder of the compliance period.

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Credit Clearance Market

Tier 2 Cost Containment Strategies

Quarterly Evaluation:

Monitoring market health-liquidity

- DEQ monitors the bank of credits quarterly for a potential early sign of a short market via significant draw down of credits.
- If the overall bank of CFP credits has drawn down below 105% of the of the next year's forecast obligation, DEQ will consider this an indicator that not enough new credits are available for the next year and an analysis of next year's targets should be done.

Credit Clearance Market

Tier 2 Cost Containment Strategies

Annual CCM Function

(modeled after California Code 95485 (c))

- If one or more regulated parties has a credit shortfall in the annual report, DEQ triggers a call to parties to pledge credits for the CCM.
- Seller pledging credits would:
  - Be previously verified by DEQ. In the event that credits are deemed invalid at a later date, DEQ will not hold the party purchasing credits liable for replacing those credits. In addition, this means no violation or penalty to the purchaser.
  - Agree to sell credits at a price no higher than the ceiling credit price to buyers in need of credits.

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Credit Clearance Market

Tier 2 Cost Containment Strategies

Annual CCM Function

(modeled after California Code 95485 (c))

- Regulated parties:
  - If the credit shortfall is less than 10%, regulated parties have to inform DEQ if they will take the up-to-10% small deficit carryover option, or purchase credits from the CCM.
  - If the credit shortfall exceeds 10%, then they must purchase from the CCM.
- If more credits are pledged than needed:
  - DEQ posts a list of credit sellers and contacts.
  - Deals will be completed within 30 days, and the credits will be transferred to the CFP online system.

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Credit Clearance Market

Tier 2 Cost Containment Strategies

Annual CCM Function

(modeled after California Code 95485 (c))

- If fewer credits pledged than needed and a "short" market occurs:
  - DEQ will post a list of sellers and buyers.
  - DEQ calculates the pro-rata share for each buyer that they are required to buy, and informs the buyer confidentially of their purchase obligation.
  - The deals will be done within a 30-day window, with credits transferred to the CFP online system.
  - In the first year of a short market, allow remaining unfulfilled obligation to be deferred to the following compliance year, without penalty, to allow more time for credits to enter the market.

Credit Clearance Market

Tier 2 Cost Containment Strategies

Annual CCM Function

(modeled after California Code 95485 (c))

- If fewer credits pledged than needed and a “short” market occurs:
  - A sustained (or annual forecasted) credit shortfall over a two consecutive calendar year time period is a sign that the program is not working as forecasted and costs to consumers are at risk.
  - In this case, WSPA recommends that the CFP targets be reset back to the carbon intensity target level of the most recent compliance year in which a surplus of credits occurred.
  - The reset targets should remain in place until a program year demonstrates that the shortfall has been overcome, i.e., when the market which has been forecasted by ICF comes to fruition.
  - There should be no penalty to regulated parties resulting from the shortfall.

Credit Clearance Market

Tier 2 Cost Containment Strategies

CCM Confidential

- The credit activity and compliance status of individual regulated parties should be confidential.

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Questions?

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