Oregon Clean Fuels Program

Item D: Cost Containment
(amended March 7, 2017)

CFP 2017 Meeting #4
March 3, 2017

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DEQ
State of Oregon
Department of
Environmental
Quality

Comments on Cost Containment

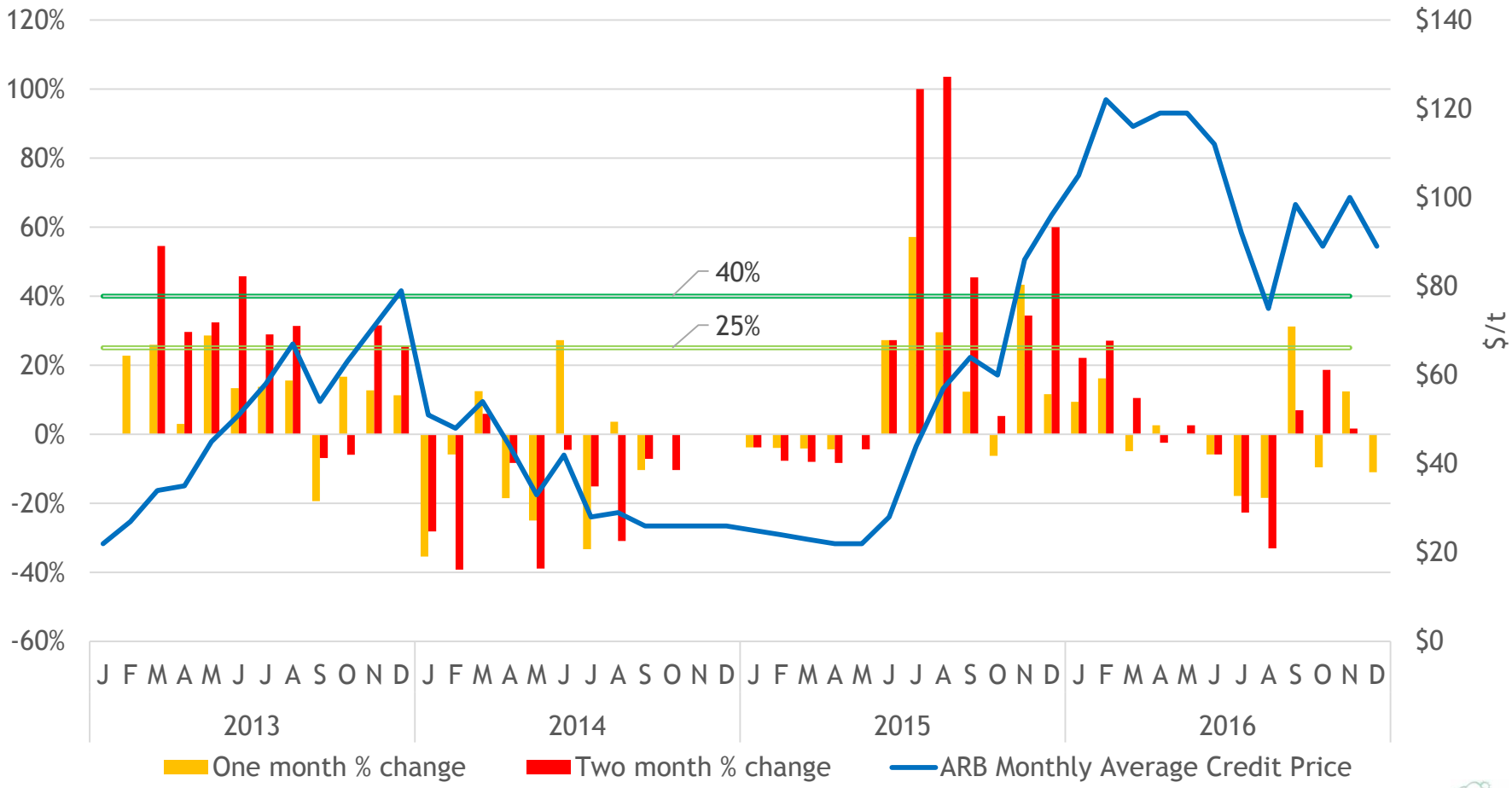
1. Short-term credit prices
2. Long-term credit prices
3. Credit clearance market cap
4. Transfer of obligation

1. Short-term Credit Prices

Summary of Comments

- Volatility is not necessarily a signal of program's ill-health or infeasibility, but a sign of growth and evolution
- Most retail price volatility comes from crude oil prices
- Changes to credit prices measured in percentage terms do not directly translate into consumer costs
- Proposed thresholds are too sensitive for a new market
- Establish a trigger that designates when the credit market is mature (period of time or # of credits traded)

Short-term Credit Prices



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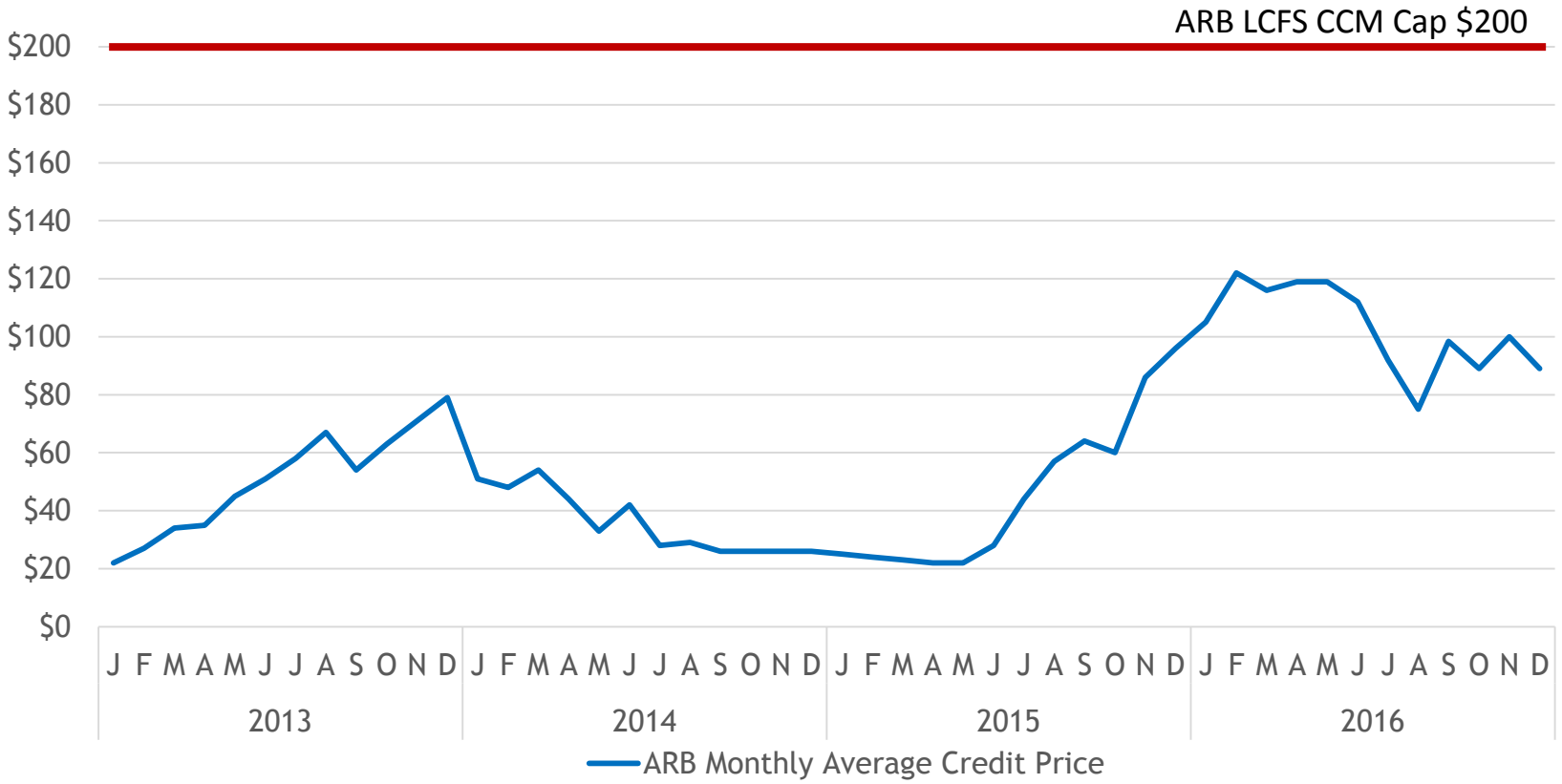
Short-term Credit Prices



- Ongoing market monitoring
- DEQ would likely investigate if credit prices go above the cap or if credible evidence is supplied that indicates something out of the ordinary may be happening

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Short-term Credit Prices

Draft OAR 340-253-0600: Records

- (1)(e) Records Retention. Add in records related to each credit transaction.
- (3) Review. Add that data, records and calculations used to transfer credits within the Program are subject to verification by DEQ.

Short-term Credit Prices

Draft OAR 340-253-1050: Credit Basics

- (9) Illegitimate credits. Clarify due diligence and “buyer beware” language.
- (10) Prohibited credit transfers. Add in language regarding fraud, falsifying records, market manipulation.
- (11) Public disclosure. Add in program-wide credit balances to quarterly data summary.

Short-term Credit Prices

Draft OAR 340-253-1060: Authority to suspend, revoke, and modify

- Give DEQ the ability to take action in the case of misstatements, inaccuracies and other bad actions in the reporting tool
- Entities would be offered the opportunity to use a contested case process under this immediate action
- Could take place ahead of any formal enforcement action
- These provisions could also be used in order to protect participants against incorrect or false CI scores which would result in the recalculation of credits/deficits

Short-term Credit Prices

Modified Emergency Deferral

- Expand the current emergency fuel supply deferral to include the ability to be invoked by DEQ in the event of credit market disruptions
- Transparent process in rule
- Have several options available to the agency so it can tailor its response to the situation at hand

Short-term Credit Prices

Draft OAR 340-253-2000: Emergency Deferral

- (1)(c) Credit market disruption. A disruption in the credit market may create undue burdens on regulated parties and Oregon fuel consumers. DEQ will consider:
  - The root cause and the likely duration of the disruption
  - The effect on retail fuel prices
  - The effect on retail availability of transportation fuels
  - The effect to the program of issuing the deferral
- (2)(b)(B) Content of deferral. DEQ shall determine a mechanism to respond to the disruption:
  - Suspend the ability to transfer credits;
  - Allowing deficits to be carried over into future compliance periods;
  - Suspend deficit accrual during the emergency deferral period; or
  - Call an emergency Credit Clearance Market

2. Long-term Credit Prices

Summary of Comments

- Clarify definition of broker/credit aggregator
- Should not limit the time a broker/credit aggregator should hold credits
- There should not be a hard cap on the price that credits can be sold for in the normal market
- Small deficit carryover should be retained
- Do not publish obligation shortfall of individual parties
- Support extension of reporting dates

Long-term Credit Prices

Response to comments:

- Remove “broker” and clarify the role of the credit aggregator.
- The annual fuel supply forecast is the primary tool DEQ uses to look at the long-term health of the program.
- Any mechanism that leads to an adjustment to the standards needs to include a public process; no automatic roll-back.
- The small deficit carry-over could be retained, but maybe something lower than 10% given the roll-over in a credit clearance market.

3. CCM Cap

Summary of Comments

- Closely mirror the California regulation to maintain regional policy consistency
- Recommendations for both:
  - Matching $200 California cap
  - Tiered cap starting higher then stepping down to $200
- Importers of finished fuels have priority to buy credits

CCM Cap

Response to Comments

California-style Credit Clearance Market

- Flat cap @ $200 through 2025
- Tiered cap @ $300 through 2019, $250 from 2020 through 2022, $200 from 2023 through 2025

Estimated cost per gallon of finished fuel

- E10 (default E10 CI vs. ethanol @ 55 CI)
- B5 (default B5 CI vs. biodiesel @ 40 CI)
- B20 (proxy B20 CI vs. biodiesel @ 40 CI)

Explanation for CCM Cap Slides

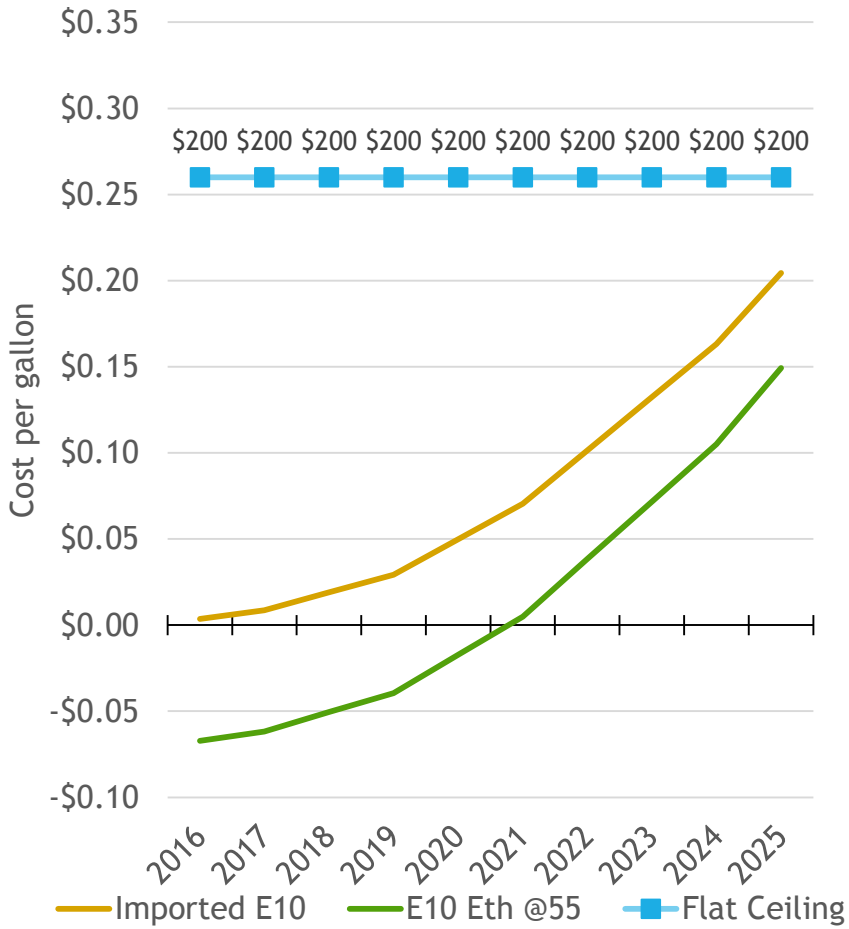
Methodology:

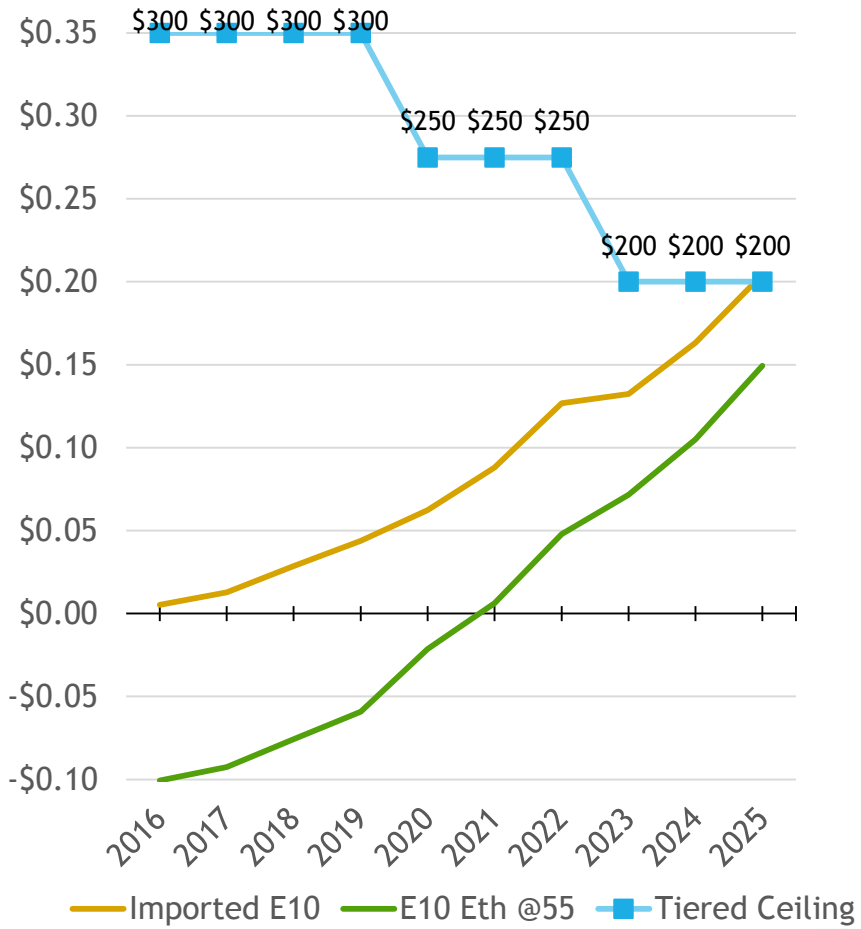
- DEQ calculated the cost per gallon for a regulated party that was only buying credits at the CCM cap price to comply with the program. The graphs are meant to illustrate the worst-case cost for discussion purposes as we talk through how to design a credit clearance market with the Advisory Committee.

Orientation:

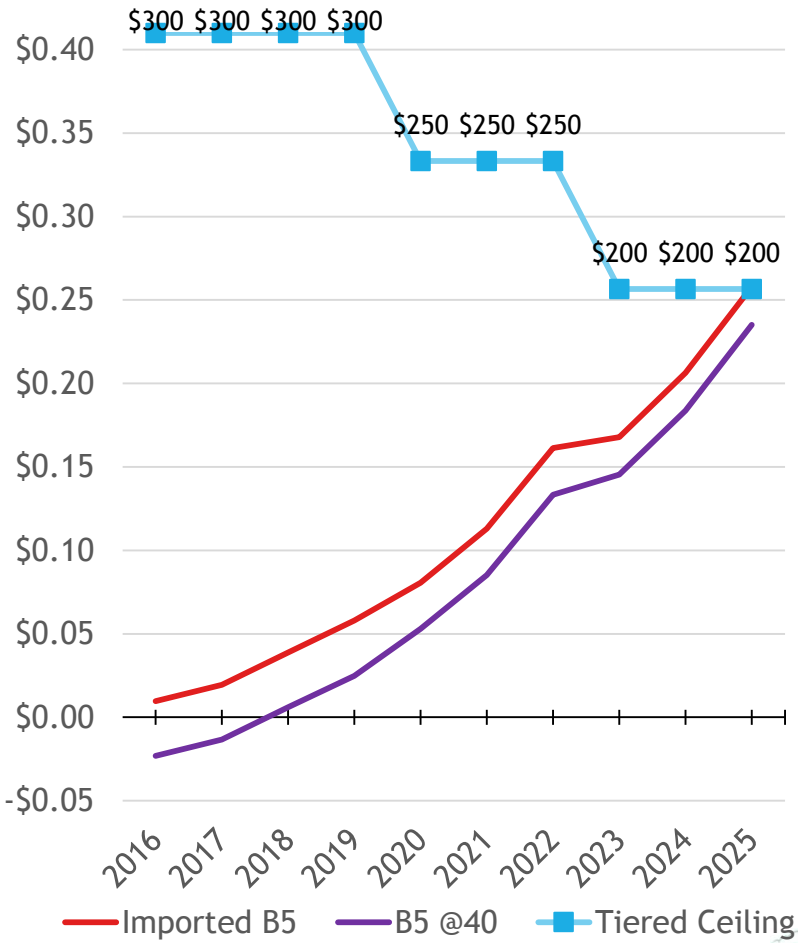
- X-axis represents years of the program
- Y-axis represents cost per gallon of fuel
- The blue line represents the credit price assumed in the calculation.
- The gold line represents maximum fuel cost assuming default biofuel carbon intensity
- The green line represents maximum fuel cost assuming lower carbon biofuel carbon intensity

CCM Cap: Flat vs. Tiered - E10

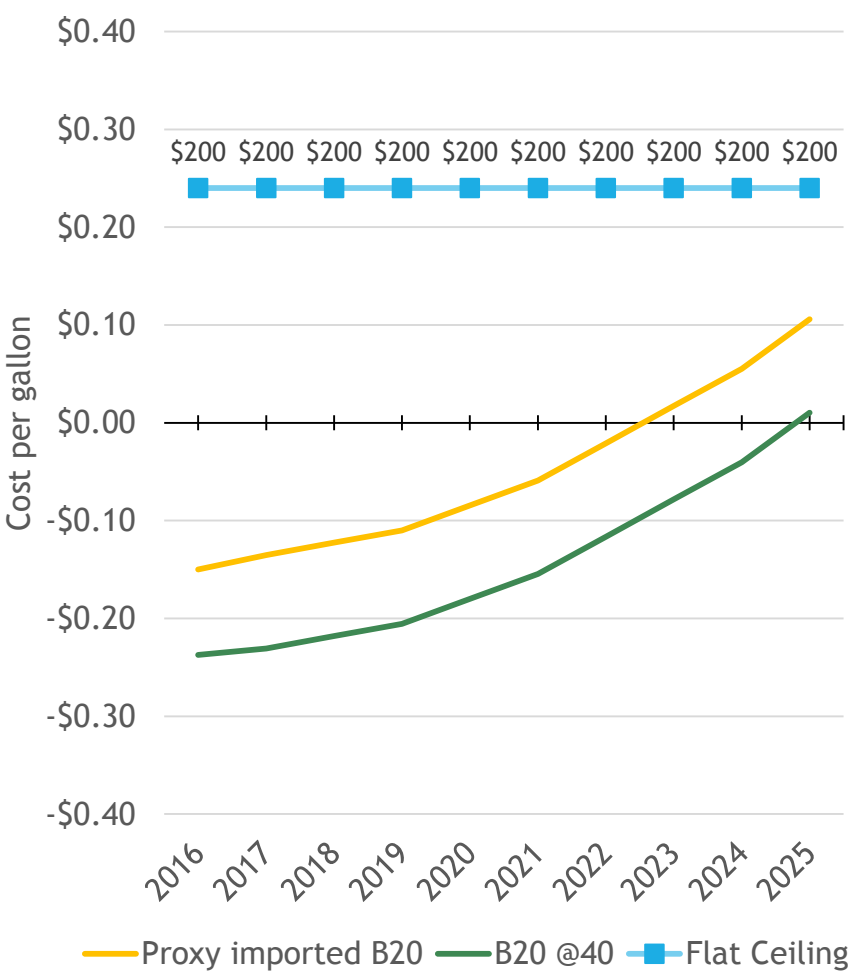


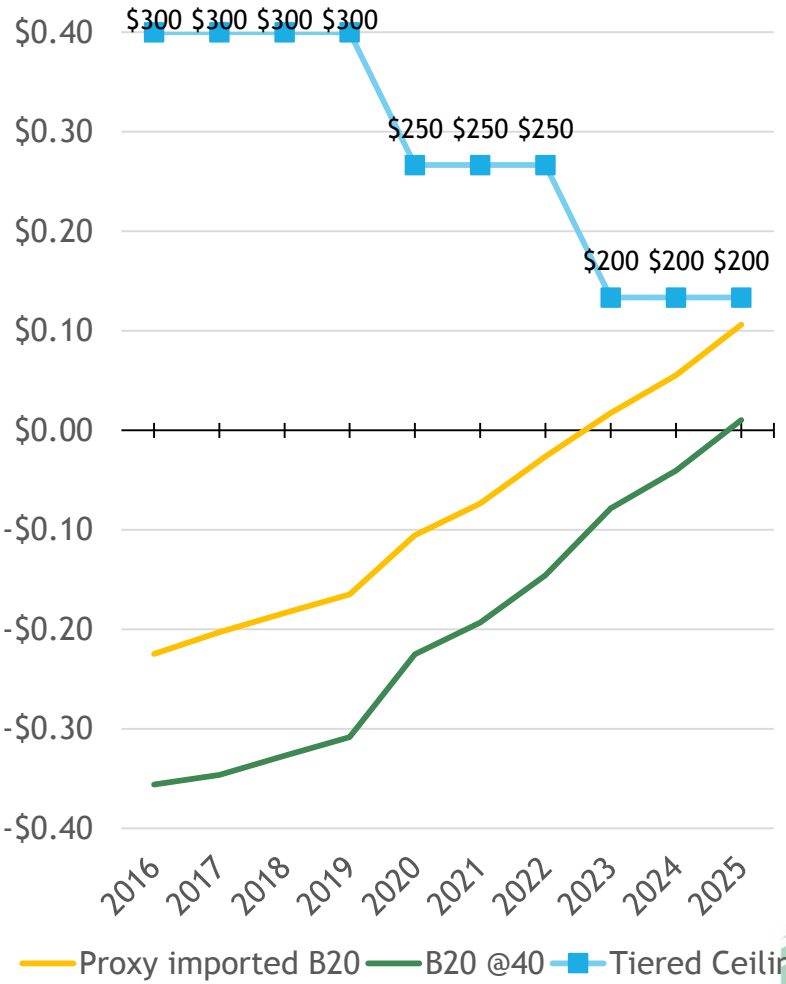


CCM Cap: Flat vs. Tiered - B5

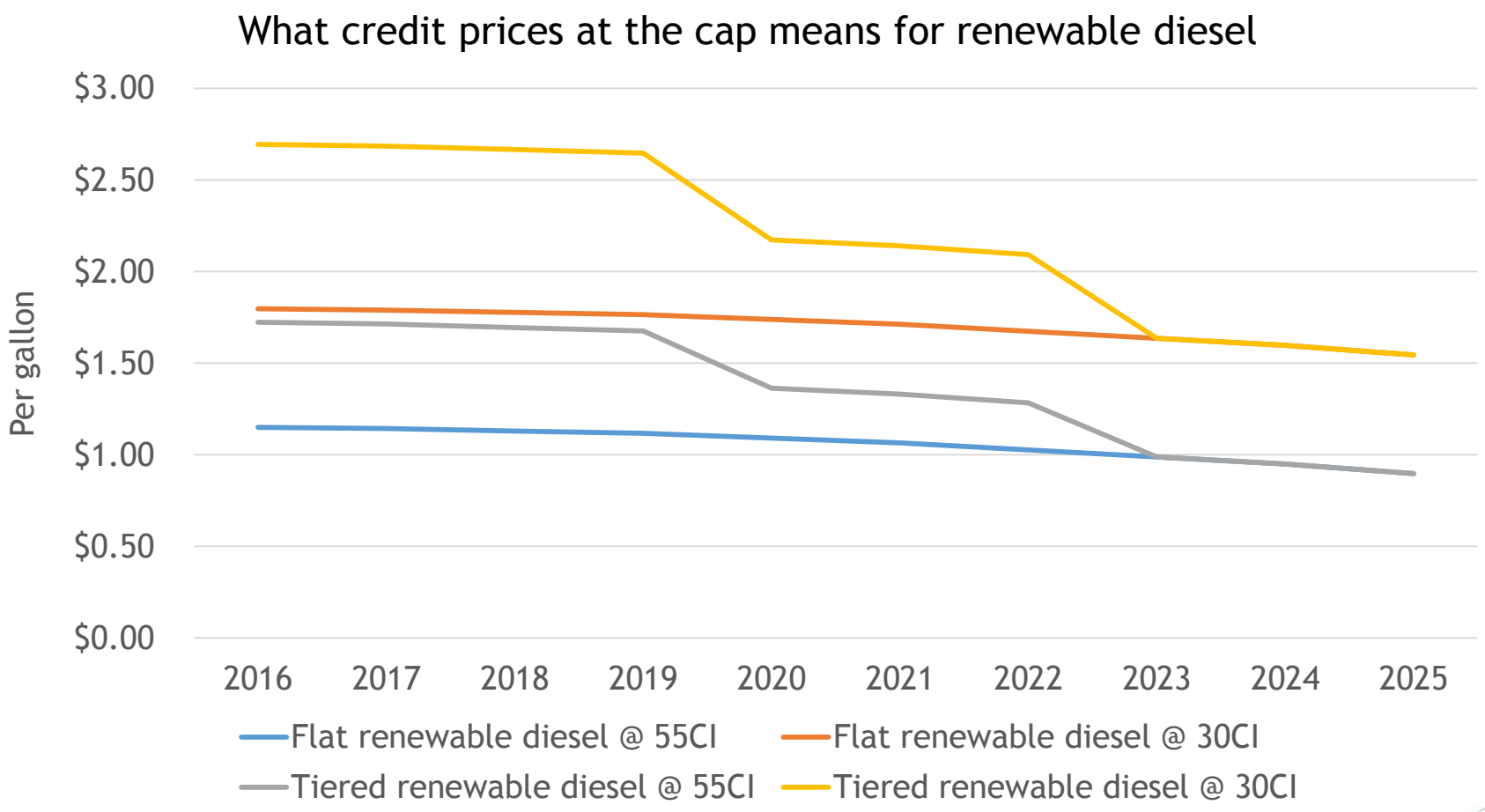


CCM Cap: Flat vs. Tiered - B20

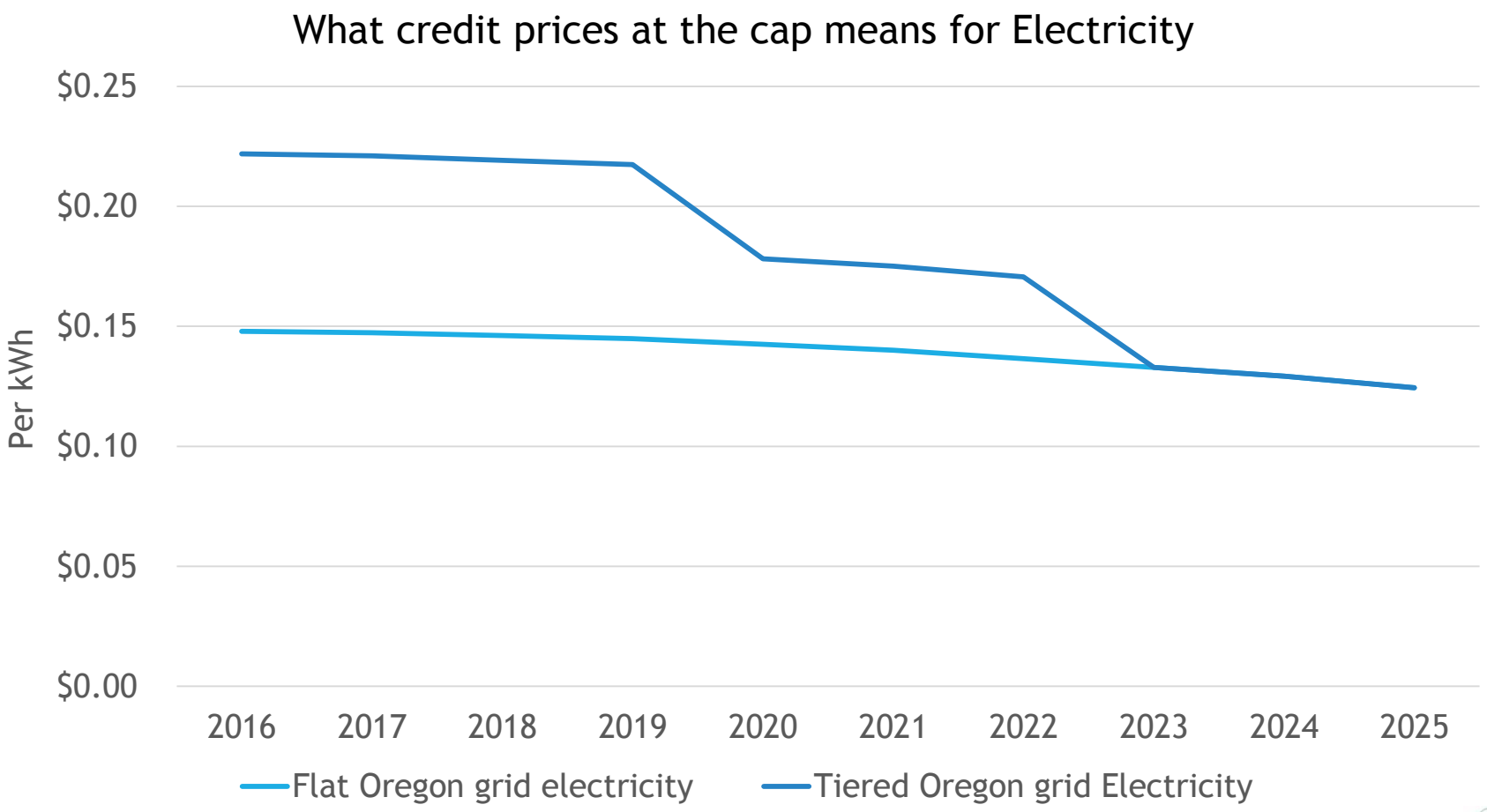




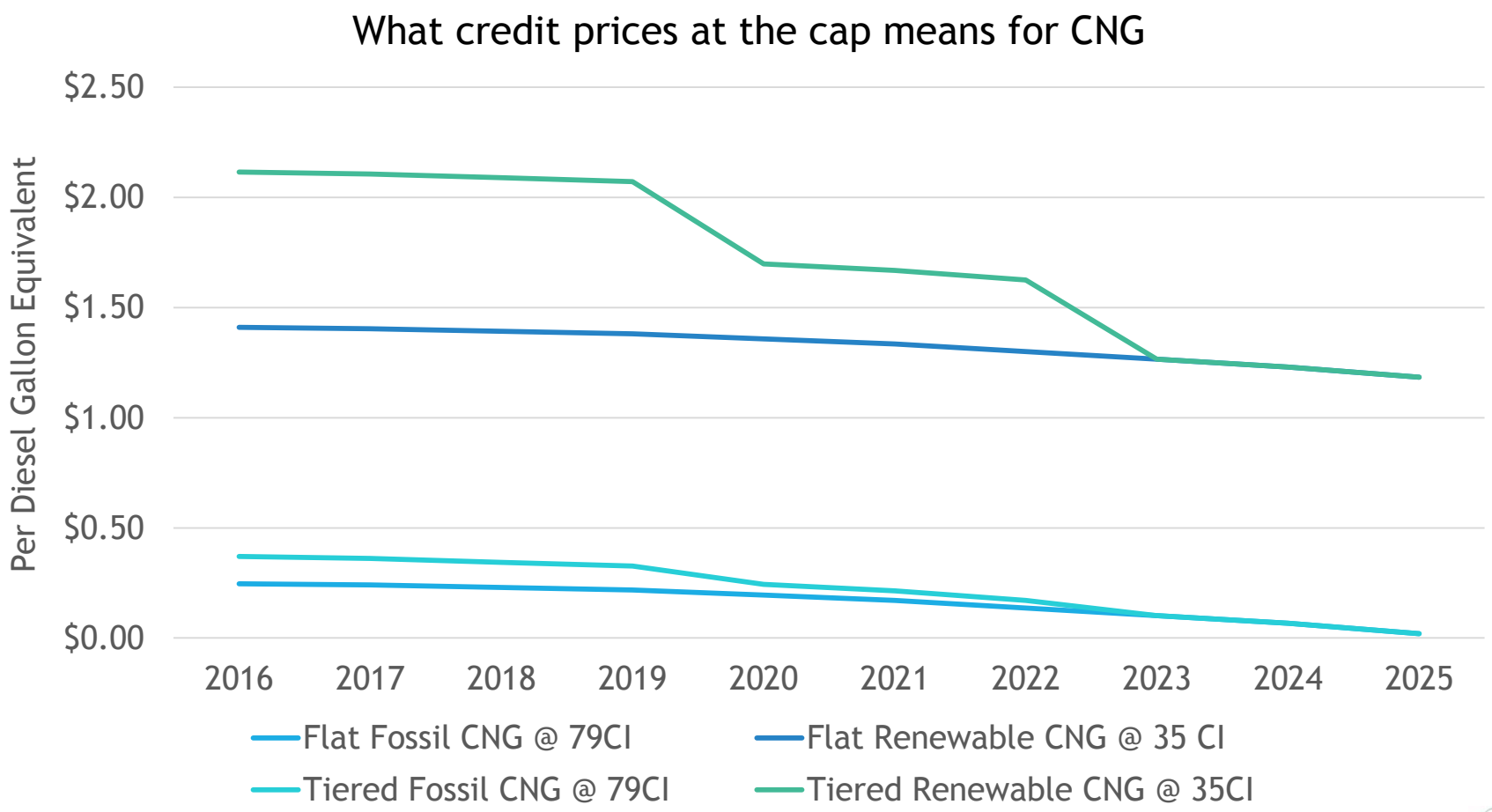
CCM Cap: Flat vs. Tiered - RHD



CCM Cap: Flat vs. Tiered - Electricity



CCM Cap: Flat vs. Tiered – Natural Gas



4. Transfer of Obligation

Summary of Comments

- Preventing deficits from being passed on at the rack will help the importers of finished fuels who only generate deficits
- Continues to allow flexibility for blending beyond E10/B5
- Should help smaller businesses (might not need to increase threshold for a small importer)

Transfer of Obligation

Current Regulation

Importer and/or Rack Seller

Importer incurs initial obligation

Clear gasoline and diesel

Blends to E10/B5

Sells fuel at rack

Buyer is an importer

Obligation can be transferred to buyer

Buyer is not an importer

Obligation must be retained by seller

Transfer of Obligation

Regulation, if amended

Importer/Rack Seller

Importer incurs initial obligation

Blends to B5 or E10

Keeps deficits and credits

Charges for net deficits

Rack Buyer

Pays for net deficits

Delivers to XYZ gas station

Transfer of Obligation

Regulation, if amended

Importer/Rack Seller

- Importer incurs initial obligation
- **Clear gasoline or diesel**
- Keeps deficits
- Charges for net deficits

Rack Buyer

- Pays for net deficits
- Blends ethanol or biodiesel
- Generates credits
- Delivers to XYZ gas station

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Transfer of Obligation

Questions:

- How much obligation being passed below the rack now?
- Will this change significantly impact the amount of fuels sold to exempt uses that are reported?
- Are there any cases where buyers at the rack would want the deficit obligation?