

Illustrative Scenarios Discussion Meeting Summary

Dec. 2, 2020, 9 to 11 a.m.
Zoom webinar



State of Oregon
Department of
Environmental
Quality

I. Meeting in brief

The Oregon Department of Environmental Quality (DEQ) hosted a virtual meeting on Dec. 2, 2020 as part of the public engagement process for a program to discuss continued efforts to develop a new program to establish greenhouse gas (GHG) emissions limits for large sources of emissions in Oregon. The purpose of the meeting was to present illustrative scenarios, informed by public and stakeholder feedback received to date, and discuss potential tensions between different program design choices and how those choices relate to the program's key goals.

The meeting was held from 9:00 to 11:00 a.m. and included a combination of presentations from DEQ and opportunities for participants to ask questions and provide comment. Agenda topics included:

- Background and overview of program goals
- Review of illustrative scenarios and tradeoffs
- Opportunity for clarifying questions
- Discussion
- Next steps

All meeting materials and the presentation are posted on DEQ's website:

<https://www.oregon.gov/deq/ghgp/Pages/programscoping.aspx>

II. Introduction

Sylvia Ciborowski, Kearns & West, opened the meeting by welcoming participants and reviewing webinar logistics. She then invited Colin McConnaha, DEQ, to introduce the DEQ staff leading the development of the program. Colin reviewed the purpose of the meeting and noted the illustrative scenarios were intended to reflect input received from the August and September technical workshops and October town hall meetings. He said the scenarios were developed to illustrate trade-offs and prompt discussion.

Sylvia then reviewed the workshop agenda and laid out meeting ground rules designed to allow for open and respectful dialogue. Next, Sylvia invited participants to share their affiliation by completing a poll. Poll results are shown on the following page.

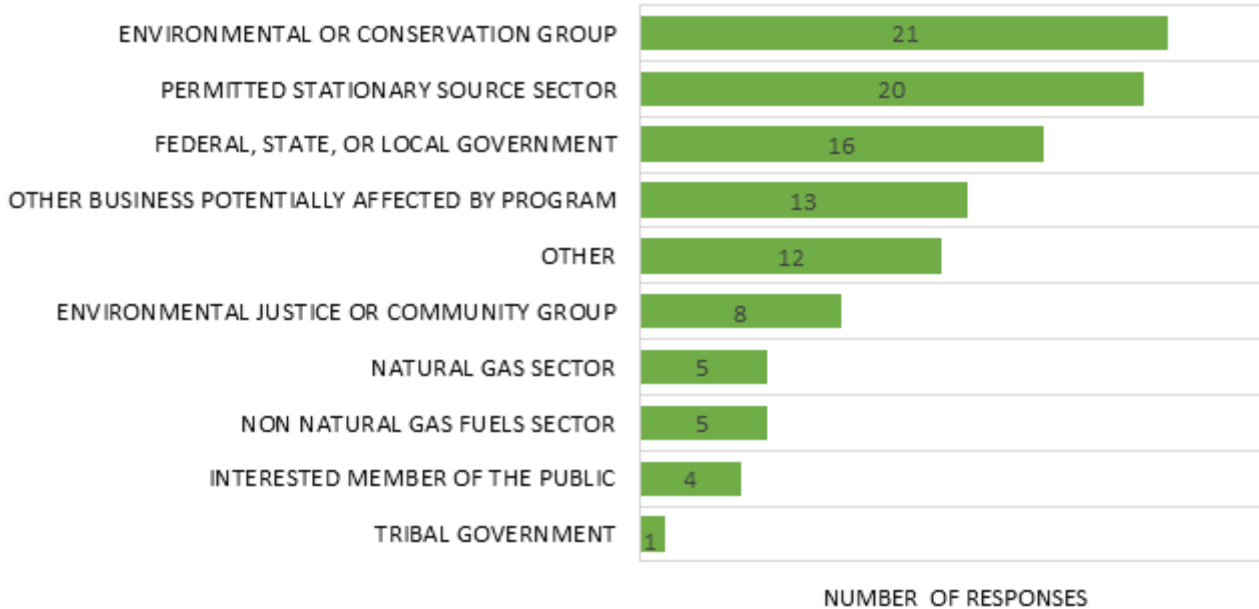
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restoring, maintaining, and
enhancing the quality of
Oregon's air, land, and
water.*

**IF YOU WOULD LIKE TO INDICATE YOUR AFFILIATION,
PLEASE DO SO BELOW.**



III. Background and overview of program goals

Nicole Singh, DEQ, provided an overview of the program development. Nicole said DEQ’s new program is aimed at reducing GHG emissions to address the effects of climate change and Oregon is already experiencing these effects. She noted that Oregon has been a leader in addressing GHG emissions with many programs to reduce GHG emissions, however the state is falling far behind the GHG reduction goals the Oregon Legislature adopted in 2007 and is still not on track to do its part to avoid the worst impacts of climate change.

Nicole explained that this new program aims to cap and reduce emissions from three areas: large stationary sources, transportation fuels, including gasoline and diesel, and all other liquid and gaseous fuels including natural gas. The goal is to initiate the program at the start of 2022. To achieve that goal, DEQ is conducting a three-phase approach through 2021 to engage with the public and gather feedback. The final phase is formal rulemaking, which will include the rulemaking advisory committee (RAC) process. The process will result in proposing rules to the Environmental Quality Commission (EQC) for adoption.

Nicole shared that DEQ has identified three program goals, as informed by public input:

- The program is anchored in significant GHG reductions.
- The program also focuses on promoting benefits and alleviating burdens from environmental justice communities.
- DEQ also recognizes there are significant economic and health costs associated with climate change and the importance of containing potential costs resulting from a new program to businesses and consumers.

She noted these goals are not mutually exclusive but illustrate some of the potential tensions that can arise among these objectives when making program policy choices.

Nicole then reviewed the purpose of the illustrative scenarios are to:

- Demonstrate relationship between key program goals
- Support discussion of potential tensions between different program design element choices
- Do not represent specific program design proposals
- Not the only options for structuring the program
- Program design proposals discussed during the formal rulemaking

Lauren Slawsky, DEQ, then shared a brief overview of DEQ’s contracted modeling study. DEQ has contracted with ICF to analyze various program scenarios for: forecasted greenhouse gas emissions; air quality and public health co-benefits; and economic effects on businesses, consumers, and Oregon’s economy. The team is just beginning to analyze various program designs, which will later be informed by the RAC and rulemaking process. The intent is for scenarios to be developed over the next several months, with presentations to the RAC in early 2021. The modeling effort is ongoing and will inform future policy proposals. The modeled scenarios will be different from the illustrative scenarios discussed at this meeting.

IV. Review of illustrative scenarios and tradeoffs

Matthew Espie, DEQ, introduced illustrative scenarios and tradeoffs. Matthew said each scenario is guided by the three program goals. The following are key tradeoffs illustrated by the scenarios:

- Total emissions reductions
- Direct emissions reductions by regulated entities
- Availability of compliance flexibility mechanisms, such as:
 - Alternative compliance options
 - Ability to trade compliance instruments
- Benefit for impacted communities in Oregon
- Costs to businesses and consumers
- Risk of leakage of businesses and emissions to outside of Oregon

Based on public input and consideration by DEQ staff, Matthew said DEQ also identified common assumptions for the scenarios such as mass-based caps, direct distribution of compliance instruments, banking of compliance instruments, and other elements that provide compliance

flexibility. He noted other program elements not detailed would not substantively illustrate key tradeoffs but would be discussed in more detail during the rulemaking process.

Matthew then reviewed a table illustrating three program scenarios. He described each scenario in relation to the following elements:

- Initial cap level
- Cap trajectory
- Basis for compliance instrument distribution
- Fixed proportion of cap based on recently reported emissions
- Ability to trade instruments
- Ability to use alternative compliance instruments
- Types of allowable alternative compliance options
- Compliance instrument reserve

V. Opportunity for clarifying questions

Sylvia Ciborowski invited participants to ask any clarifying questions about the three illustrative scenarios, design choices, or tradeoffs described.

Meeting attendees provided the following questions:

- An attendee representing an environmental organization asked whether scenario two or three assumed carbon sequestration as a potential component of alternative compliance options and if one ton of carbon sequestration in the atmosphere would equal one ton of emission reductions.
 - Colin McConnaha, DEQ, said that primarily carbon sequestration is illustrated as an alternative compliance avenue in Scenario 1 and perhaps could be included in Scenario 2. He said carbon sequestration is not assumed in Scenario 3, since it focused on direct emissions reduction. One way to credit sequestration is through awarding one credit through one ton of carbon sequestered, however these scenarios do not provide any suggestions on that front.
- An attendee representing a non-profit organization wondered about the scope of DEQ's authority over consumers purchasing products that emit, such as vehicles.
 - Colin responded that in general this program would cover transportation fuels at the supplier level rather than the individual vehicle or consumer, due to administrative efficiencies.
- An attendee from an environmental organization asked if the cap trajectories assumed a specific rate of decline.
 - Colin explained that the amount of reduction is not quantified in any of the scenarios and the cap trajectory is intended to compare each scenario. Nicole Singh added that future detailed scenarios will quantify the rate of decline, the intent of this exercise is more about relativity.

- An attendee from an environmental organization asked for more detail about the compliance instrument reserve category.
 - Matthew Espie explained that the compliance instrument reserve would serve to hold some portion of compliance instruments to be distributed based on pre-set criteria, such as if the trading price on the secondary market exceeds a certain level.
- An attendee asked if legislative approval would be required to allow compliance instrument trading.
 - Colin said the scenarios illustrated different design approaches within existing DEQ and EQC authority.
- An attendee asked for clarification about if a different scenario could be assigned to different sectors and if scenarios could change over the duration of the program.
 - Colin said that in theory it was possible to adopt a different approach by different sectors and to change the approach at a later point. Nicole Singh added that it was also possible to mix and match elements of different scenarios and these three scenarios did not represent the full range of possible options.
- An attendee representing an environmental organization asked if DEQ's goals were ranked in priority order and if they were informed by public input.
 - Colin responded that the goals did not reflect any prioritization and DEQ did not believe the goals were mutually exclusive. The goals also reflected public input received to date during the scoping phase.
- An attendee representing an environmental organization asked if DEQ could request output data to use as a basis for distributing compliance instruments during the first year of the program.
 - Colin said DEQ did not collect that data now and it was something that they could further explore.
- An attendee representing an environmental organization asked to clarify how the cap trajectory was reflected in each scenario. For example, they wondered if Scenario 1 would achieve the 2035 reduction goals faster and potentially exceed the target.
 - Colin explained that the scenarios were not intended to reflect a numerical target, but to show how the cap trajectory compared between each scenario.
- An attendee representing a policy research institute said they believed the best and most progressive option was Scenario 1. However, they believed a trading option was no longer on the table and asked how it was possible that trading could be considered.
 - Colin clarified that it is within EQC's authority to allow trading among regulated entities within the program, however they had not explored trading with another jurisdiction.
- An attendee asked about the administrative portion of the program and DEQ's proposed approach for an IT system. They also wondered if this approach would be uncovered through ICF's study or through an open process and noted the opportunity to leverage advanced technologies.
 - Matthew said DEQ could have noted it as a common assumption that DEQ would likely have an IT system and online platform developed to assist with administration, including with distribution of compliance instruments, trading, and submittal of

forms. He said the administrative elements were not related to the ICF study. The approach is not directly related to program design tradeoffs and is not addressed in the scenarios.

- An attendee representing an environmental organization observed that Scenario 1 may result in fewer direct emissions but wondered if there was some way of avoiding pollution hot spots.
 - Colin explained the scenarios do not speak to pollution hot spots and that they tried to illustrate a way to achieve the most ambitious GHG reductions by allowing for more compliance opportunities. One way to allow considerable compliance is to allow access to carbon offset registries, which could include offsets outside of the state.

IV. Discussion

Sylvia Ciborowski invited comments on the scenarios presented by DEQ and noted that participants could also provide written feedback by Dec. 9, 2020. To help guide conversation, Sylvia Ciborowski provided the following discussion questions to the group:

- Which program design choices in these scenarios best achieve the program goals?
- What other choices could be made to better meet program goals?
- What tradeoffs or other tensions between design choices are not illustrated by the scenarios?

Meeting attendees provided the following comments:

- An attendee commented on the importance of improving soil health and referred DEQ to a publication titled “Carbon Sequestration Potential of Terrestrial Ecosystems.” They asked DEQ to coordinate with other jurisdictions that are already funding programs and investing in regenerative agriculture and carbon sequestration.
- An attendee representing an environmental organization noted their appreciation to DEQ for outlining the scenarios and that they were informative in bringing out related issues and tensions. They suggested framing the goals by illustrating synergies rather than emphasizing tensions and illustrating the economic benefits of addressing climate change, rather than just the cost to consumers and businesses.
- An attendee representing an environmental organization commented that they appreciated the scenarios reflected public input, specifically many who urged significant and early admissions and prioritizing benefits to environmental justice and frontline communities. They noted a cap with a steep trajectory could help promote innovation. Additionally, they expressed concern with Scenario 1 in that it could harm environmental justice and impacted communities by not prioritizing direct emissions reductions.
- Another attendee representing an environmental organization echoed the importance of an ambitious cap and said some of the program elements not described would be important to the overall design, such as the maximum coverage of sectors, and expressed an interest in discussions about options previously laid out regarding the agency’s authority. They supported output-based allocation and the inclusion of a reserve.

- An attendee agreed with the previous three speakers and stated that regulated entities should be expected to phase out flexibility options over time. They liked the idea of generating long-range GHG emissions reductions plans and requiring them in order to access compliance instruments. They added that achieving equitable goals can be difficult without funding but could also be achieved by encouraging more rapid reductions.
- An attendee representing an environmental organization supported reaching zero emissions by 2050 and shared concerns about being on target to achieve emissions reductions. They noted the need to focus on science-backed targets and including a scenario that achieves zero emissions. DEQ should consider strategies adopted by other jurisdictions around the world, such as phasing out internal combustion engines.
- Another attendee representing an environmental organization commented on the importance of an ambitious cap and also ensuring frontline communities see the benefits of reductions. However, Scenario 1 would not allow for those benefits because of a reliance on alternative compliance instruments could result in pollution hot spots. They suggested further building out Scenario 3 and wondered if DEQ had considered a scenario that would not allow trading.
- An attendee representing an environmental organization suggested analyzing the scenarios by the strength of the cap and strength of the decline, following the goals of the Executive Order at a minimum, with two levels of trading and three levels of alternative compliance mechanisms. They suggested further defining policy options, including the sectors covered and the cap and alternative compliance scenarios. Further, they said to include the co-benefits illustrated in Scenario 2 across all scenarios.
- An attendee representing the timber industry commented that the program should ensure the net positive carbon benefits of forest management and noted that DEQ should coordinate with Oregon Department of Forestry's (ODF) study on carbon lifecycle assessments. They were concerned about impacts to small businesses in the industry since there are thin profit margins and challenges with passing cost increases on to the consumer.
 - Colin McConnaha noted that cost impacts to small businesses will be evaluated as part of the rulemaking process and that DEQ was not involved but was following the ODF lifecycle assessment process.
- An attendee representing an environmental organization commented that Scenario 2 most effectively achieved the stated goals, by allowing alternative compliance mechanisms without linking to offset registries. In contrast, Scenario 1's reliance on offsets could limit direct emissions reductions and Scenario 3 could cause costs to increase for consumers while failing to promote investments to local communities.
- An attendee representing an environmental organization agreed with the concerns raised about Scenario 1 and a potential pollution hot spot issue. They also raised an interest in regulating the natural gas industry and related power plants.
- An attendee representing an environmental organization said he accepted the concerns expressed about the possibility of alternative compliance instruments comprising equity and social justice issues, but the program would need to have mechanisms that incentivize reductions to achieve the stated goals. They stated that carbon sequestration would be an important tool for achieving the program's goals.

- An attendee suggested exploring vehicle electrification as a way to achieve \$5 billion in cost savings for the state and recommended reporting energy costs in future analyses.
- An attendee representing an environmental organization was intrigued by Scenario 1 and noted there are ways to mitigate concerns about offsets through usage limitations or direct environmental benefits carve-outs. They noted the challenge that this program would not allow for auctioning of allowances, meaning alternative compliance instruments will play a central role to incentivize cost-effective reductions. Oregon has the opportunity to set an example for other states with this type of program to address climate change.
- An attendee representing an agricultural industry association said it was helpful to hear perspectives from environmental organizations and that business shared common goals of making sure there is a healthier planet. They shared specific challenges with the nursery industry with requiring emissions reductions when carbon mitigating products are exported. Additionally, they hoped environmental and business groups could define shared wins and overlapping interests during the rulemaking process.

V. Meeting wrap up and next steps

Nicole Singh, DEQ, thanked participants for their comments and said DEQ looked forward to continued conversations in the rulemaking process. DEQ is in the process of convening the RAC, with the first RAC meeting scheduled for January 2021. RAC meetings are open to the public with an opportunity for public comment. Nicole reviewed the tentative rulemaking process in 2021, beginning with RAC meetings through Summer 2021, followed by a notice of proposed rulemaking, and public comment in Summer/Fall 2021. EQC consideration and possible approval of proposed rules is anticipated in late 2021.

Sylvia Ciborowski, Kearns & West, reminded attendees to provide written comment to DEQ by Dec. 9, 2020. Sylvia then thanked attendees for their participation and comments and adjourned the meeting.

Meeting adjourned at 11:00 a.m. PDT.