

Technical Workshop 4 Distribution of Compliance Instruments

Design Scoping for a Greenhouse Gas
Emissions Cap and Reduce Program

Sept. 9, 2020

Introductions

Oregon DEQ

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Today's Agenda

Time	Topic
9:00 a.m.	Welcome, Introductions, and Overview
9:10 a.m.	Defining Compliance Instruments and Key Issues
9:20 a.m.	Input from Stakeholders Unable to Join the Entire Meeting
9:30 a.m.	Considerations for Large Stationary Sources
10:20 a.m.	Considerations for Natural Gas
11:10 a.m.	Break
11:15 a.m.	Considerations for Non-Natural Gas Fuel Suppliers
12:05 p.m.	Lunch
12:35 p.m.	Connection to other Program Design Elements
1:15 p.m.	Emerging Issues and Remaining Questions
1:30 p.m.	Adjourn Meeting

Cap and Reduce

Executive Order 20-04 directives to EQC and DEQ:

Sector-Specific Cap and Reduce Program

- Cap and reduce GHG emissions consistent with science-based emissions reduction goals from sectors including:
 - Large stationary sources
 - Transportation fuels, including gasoline and diesel
 - All other liquid and gaseous fuels including natural gas

Pre-Rulemaking Public Engagement Opportunities

Technical Workshops (August & September)

Detailed discussions about specific policy design options, key issues, and solutions

Town Halls (October)

DEQ presentation followed by public comment period

Additional Opportunities (Ongoing)

- Submit written comment after meetings
- Focused stakeholder meetings to address specific issues of interest, as requested
- Briefings provided to and meetings with community organizations, as requested

Technical Workshops

Purpose

- Engage across-the-table discussions of program design features
- Seek opportunities to address issues of interest
- Identify areas for attention during the rulemaking
- Offer multiple, accessible options for comment

Goals

- DEQ acquires useful information and perspectives
- Productive conversation on interests and issues related to the topic is facilitated across stakeholders
- Common understanding of priority issues, legal constraints, potential policy mechanisms and implications
- Allow opportunity to inform design and direction of rulemaking

Meeting Ground Rules

- Honor the agenda
- Provide a balance of speaking time
- Listen to understand and ask questions to clarify
- Respect each other's viewpoints, values and interests
- Focus comments on topics at hand – **be hard on the issues and soft on the people**



Comment Protocols

- Stay on mute when not speaking, and feel free to join us on video
 - For questions or comment, use “**Raise Your Hand**” button to get in the queue; if joined by phone, press *9 to raise hand
 - When it is your turn to speak, the facilitator will call on you
 - Say your name and affiliation before speaking
 - Use the “Chat” feature for help troubleshooting any issues

The meeting will not be recorded. A summary will be posted to the cap and reduce webpage:

www.oregon.gov/deq/ghgp/Pages/capandreduce.aspx

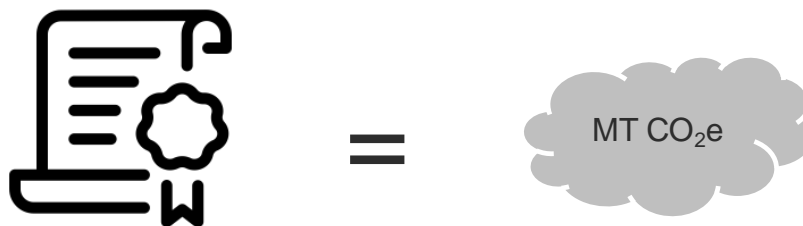
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Defining Compliance Instruments

Compliance Instruments

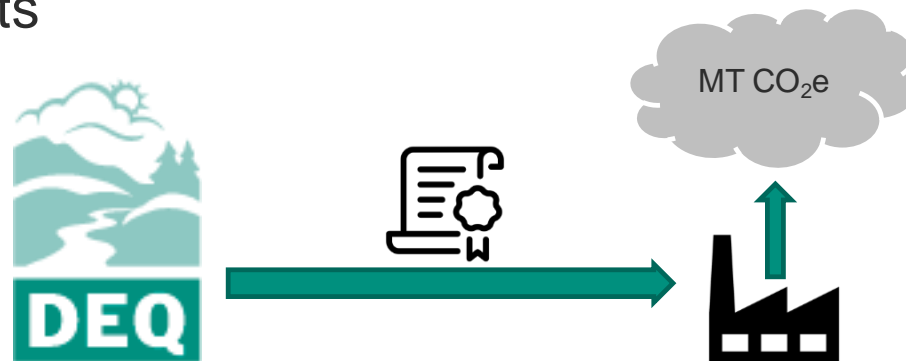
- Permit/allowance for a regulated entity to emit greenhouse gases
 - 1 compliance instrument likely equal to 1 MT CO₂e
- Compliance instruments demonstrate allowable emissions under the cap
 - Regulated entities would hold compliance instruments equivalent to their emissions to comply with the program(s)
- As the cap decreases, available compliance instruments decrease



Distributing Compliance Instruments

Distribution

- DEQ does not believe the EQC has the authority to auction or sell rights to emit greenhouse gases
- DEQ is instead considering methods for free allocation
 - Distribution up to the cap or some portion in reserve for use on an as-needed basis
 - Distribution using a mass-based or intensity-based metric
 - Distribution using historical emissions or annually updating re-assessments



Tracking

- DEQ is evaluating options to develop a system to manage tracking and distribution of compliance instruments
 - Leverage existing emissions reporting as much as possible
 - Generate and distribute compliance instruments to regulated entities registered in the new system
 - Regulated entities will be able to log in to view compliance obligations, track compliance instruments, and possibly trade compliance instruments

Distributing Compliance Instruments

Key Considerations

- Identifying the baseline period for establishing initial distribution of compliance instruments and process for distribution over time
- Reducing leakage of operations and emissions outside of Oregon
- Addressing changes in market share and emissions year-over-year, including through new entrants and exits from the market

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Sector Characteristics: Stationary Sources



Number of Entities

Over 260 permitted air contamination sources reporting GHG emissions



Other Considerations

Variety of sources/products:

- Industrial manufacturers
- Power plants
- Natural gas compressor stations
- Landfills
- Institutional facilities

Distribution for Stationary Sources

Key Considerations

- Initial baseline period
- Ongoing distribution method
- Mass-based or intensity-based metric
 - If intensity-based, product/output used to determine emissions intensity
- Leakage
- New entrants

Key Questions for Discussion

Large Stationary Sources

- Is there a historic baseline period DEQ should consider for the initial distribution of compliance instruments? Which years should be considered?
- How should distribution of compliance instruments change over time? How should DEQ distribute to entrants?
- Should compliance instruments be distributed using a mass-based or intensity-based methodology? Why? What are the key considerations?

Zoom:



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Phone:

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Sector Characteristics: Natural Gas



Number of Entities

- 3 investor-owned utilities distributing natural gas in Oregon
- Multiple gas marketers selling gas that is transported on local distribution company system



Variability

Generally stable market share of emissions from year to year



Point of Regulation

- Utility, marketer, or on-site end user (large stationary source)
- Natural gas deliveries from marketers are less stable from year to year

Distribution for Natural Gas Suppliers

Key Considerations

- Initial baseline period
- Ongoing distribution method
- Mass-based or intensity-based metric
- Leakage
- Point of regulation

Key Questions for Discussion

Natural Gas

- Is there a historic baseline period DEQ should consider for the initial distribution of compliance instruments? Which years should be considered?
- How should distribution of compliance instruments change over time?
- Should compliance instruments be distributed using a mass-based or intensity-based methodology? Why? What are the key considerations?
- What considerations are there for distribution of compliance instruments for natural gas sold by marketers?

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Sector Characteristics: Non-Natural Gas Fuel Suppliers



Number of Entities

Nearly 100 fuel suppliers bringing fossil fuels into Oregon in a given year



Variability

Emissions from suppliers are variable from year to year

- Multi-year compliance periods may be a program design feature



Other Considerations

Emissions may be above/below the threshold for inclusion in the program from one year to the next

Distribution for Non-Natural Gas Fuel Suppliers

Key Considerations

- Initial baseline period
- Ongoing distribution method
- Mass-based or intensity-based metric
- Leakage
- New entrants
- Variability from year to year

Key Questions for Discussion

Non-Natural Gas Fuel Suppliers

- Is there a historic baseline period DEQ should consider for the initial distribution of compliance instruments? Which years should be considered?
- How should distribution of compliance instruments change over time?
- Should compliance instruments be distributed using a mass-based or intensity-based methodology? Why? What are the key considerations?
- How should DEQ address variable market shares in this sector?

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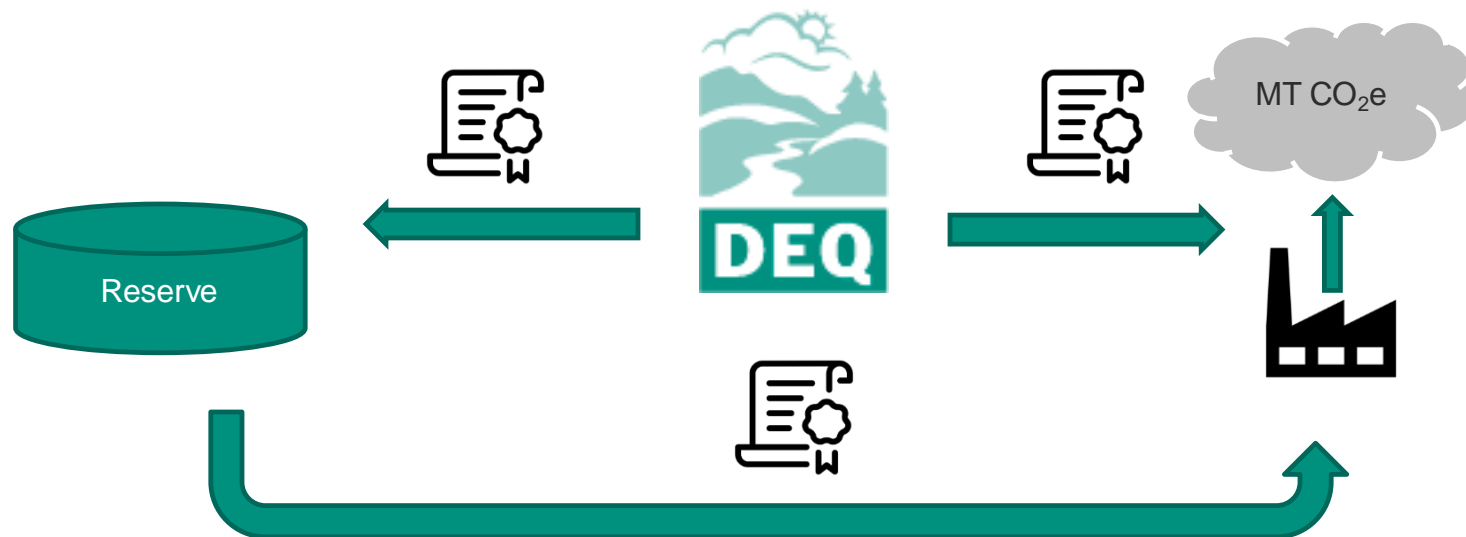
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Other Program Design Elements

- The program(s) may include several cost containment design elements, such as holding some portion of compliance instruments in reserve
- If these design elements are included, there are considerations for they affect the distribution of compliance instruments
- Specific considerations for whether these program elements are included will be discussed in Workshop 5 on Cost Containment

Reserves

- DEQ could hold some portion of compliance instruments in reserve to distribute on an as-needed basis
- Compliance instruments in reserve may be under program cap(s) or may be in addition to cap(s)



Key Questions for Discussion

Connection to Other Program Design Elements

- If there is a compliance instrument reserve, how should DEQ distribute from the reserve?

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Key Questions for Discussion

Emerging Issues and Remaining Questions

- What issues have been raised that should have continued discussions?
- What issues relating to this workshop topic were not raised that should be discussed?
- What issues remain or need further discussion that should be brought up during the rulemaking?

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Next Steps

A summary of today's workshop will be posted to the cap and reduce website:

www.oregon.gov/deq/ghgp/Pages/capandreduce.aspx

- DEQ will announce upcoming meetings two weeks in advance of each meeting date. Meeting materials including issue brief, agenda, and slides will be posted to the website prior to each meeting. Announced meetings:
 - Workshop 5 on Cost Containment
 - Tuesday, Sept. 15, 9 a.m. – 1:30 p.m.
 - Workshop 6 on Impacted Communities
 - Thursday, Sept. 17, 9 a.m. – 1:00 p.m.
- Future public comment opportunities will be posted to the cap and reduce website

Contact Us

- **Email:** CapandReduce@deq.state.or.us
 - Please submit any comments in relation to this workshop within the next week (by September 16)
- **Sign up for updates:**
www.oregon.gov/deq/ghgp/Pages/capandreduce.aspx
- **For alternative formats and materials in languages other than English:** 800-452-4011 or email deqinfo@deq.state.or.us