Oregon

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To: Energy Facility Siting Council

From: Tom Jackman, Rules Coordinator

Date: July 24, 2026

Subject: Fiscal Impact Statement for Carbon Monetary Offset Proposed Rulemaking

Attachments: None

FISCAL AND ECONOMIC IMPACT

The proposed amendment would increase the monetary offset rate in OAR 345-024-0580 from $6.40 to $9.60 per ton of carbon dioxide emissions. The rule would not impose a direct fiscal impact on state agencies or units of local government. Monetary-path payments are made by an applicant or certificate holder to a qualified organization for the implementation of carbon dioxide offsets and are not paid to the state or a local government. The proposed amendment does not change the responsibilities of state or local government agencies participating in the energy facility siting process. Any minor administrative costs incurred by the Oregon Department of Energy to implement the amended rate are expected to be absorbed within existing resources.

The proposed amendment would directly affect an applicant for a fossil-fueled power plant or a carbon dioxide-emitting nongenerating energy facility if the applicant elects to use the monetary pathway to demonstrate compliance with an applicable carbon dioxide emissions standard. The amendment would increase the applicant's required offset funds by $3.20 for each ton of carbon dioxide reduction for which the applicant takes credit through the monetary pathway. The total fiscal impact would therefore depend on the amount of carbon dioxide emissions that a particular facility is required to offset.

For illustration, the Department's analysis used a representative 418.3-megawatt combined-cycle natural gas plant producing approximately 281,485 tons of excess carbon dioxide emissions annually. Under those assumptions, the proposed amendment would increase the annualized cost of offset funds by approximately $900,752. The total annualized offset-fund obligation at the proposed $9.60 rate would be approximately $2.70 million. The incremental cost represents approximately 0.20 percent of the estimated annual retail value of the electricity produced by the representative facility, while the full offset-fund obligation represents approximately 0.60 percent of that value.

The total monetary-path obligation may be somewhat greater than the offset-fund amounts described above because existing rules also require funds for selecting and contracting for offsets and require financial security in the form of a bond or letter of credit. Because these amounts are based, in whole or in part, on the amount of required offset funds, the proposed increase may also result in higher selection and contracting payments and financial-security costs. These additional costs cannot be estimated without project-specific emissions calculations and financing information.

Existing certificate holders generally would not be affected because monetary-path payment requirements are ordinarily based on the rate applicable when the Council issues the final order applying the carbon dioxide emissions standard. An existing certificate holder could be affected if a subsequent amendment, supplemental payment requirement, or other Council action applies the amended rate.

A qualified organization receiving monetary-path funds may receive additional funds for implementing, monitoring, evaluating, administering, and enforcing carbon dioxide offset projects. These funds are restricted to the purposes established by statute, rule, and the applicable site certificate and do not constitute unrestricted revenue.

The Department cannot quantify any indirect effect on electricity customers. Whether any portion of the increased cost would ultimately be recovered from ratepayers would depend on the ownership of the facility, applicable utility regulation, future rate proceedings, and other project-specific circumstances. Because no specific covered facility is currently being evaluated under the proposed rate, the Department cannot estimate the aggregate statewide fiscal impact.

STATEMENT OF COST OF COMPLIANCE

<u>(1) State agencies, units of local government, and members of the public likely to be economically affected</u>

State agencies: The Oregon Department of Energy may incur minor administrative costs associated with implementing the amended monetary offset rate and applying it in a future site certificate proceeding. No significant fiscal impact on the Department or any other state agency is anticipated.

Units of local government: No fiscal impact on units of local government is anticipated. The proposed amendment does not impose new permitting, reporting, enforcement, or administrative responsibilities on counties, cities, or other local governments.

Members of the public: Applicants and certificate holders for fossil-fueled power plants and covered nongenerating energy facilities may be economically affected if they use the monetary pathway. The direct increase would be $3.20 for each ton of carbon dioxide reduction addressed through that pathway, together with any related increase in selection and contracting funds and financial-security costs. Qualified organizations may receive additional restricted funds for carbon dioxide offset activities. Any indirect impact on utility customers or other members of the public is uncertain and cannot be quantified without a specific proposed facility and a determination regarding recovery of project costs.

<u>(2) Effect on small businesses</u>

(a) Estimated number and type of small businesses subject to the rule: The Department is not aware of any small business currently proposing a facility that would be required to make a monetary-path payment under the amended rate. Based on the size, capital requirements, and historical ownership of facilities subject to the Council's carbon dioxide emissions standards, the Department estimates that fewer than five small businesses are reasonably likely to be directly affected by the proposed amendment in the foreseeable future. Potentially affected businesses would be developers or operators of fossil-fueled power plants or carbon dioxide-emitting nongenerating energy facilities subject to Energy Facility Siting Council jurisdiction.

(b) Reporting, recordkeeping, and administrative activities required for compliance: The proposed amendment does not establish any new reporting, recordkeeping, application, or administrative requirements. An affected applicant would already be required to calculate the amount of carbon dioxide reduction for which it seeks credit, identify a qualified organization, calculate its monetary-path obligation, and provide required financial security. Compliance would require only the use of the amended monetary offset rate in those existing calculations.

(c) Professional services, equipment, supplies, labor, and increased administration: The proposed amendment would not require the purchase of new equipment or supplies and is not expected to require additional employees. An affected business may incur minor legal, accounting, engineering, consulting, or financing costs to revise its monetary-path calculations and arrange a bond or letter of credit reflecting the increased obligation. These costs would be project-specific and cannot be reliably estimated in the absence of an affected facility. The principal cost would be the additional $3.20 per ton of carbon dioxide reduction addressed through the monetary pathway.

The Department does not anticipate that the proposed amendment will have a significant adverse effect on small businesses. No small business is known to be currently subject to the amended rate, no new procedural obligations would be imposed, and any future economic effect would arise only if a small business elected to develop a covered facility and use the monetary pathway.

Small-Business Involvement

Small businesses were not separately represented in developing the proposed amendment. The amendment is limited to updating a single numerical rate, does not change the existing compliance process, and is based on publicly available carbon-market information and the Department's analysis of the economic achievability of the rate for natural gas-fired power plants. The Department did not identify any small business currently proposing a facility that would be subject to the amended rate. Small businesses and other interested persons may provide information regarding fiscal impacts, compliance costs, or less costly alternatives during the public-comment period.