How is electricity covered under cap-and-trade?

Oregon electricity customers are served by electricity generated in Oregon and electricity generated by facilities in other states imported to Oregon. The Oregon Climate Action Program covers emissions associated with facilities that generate electricity in Oregon and emissions associated with power imported to serve load in Oregon.

For generating facilities in Oregon, the point of regulation is the generating facility. These facilities would be responsible for emissions reported to the state as a generator. For imported power, the point of regulation is defined as the entity that first schedules the imported power for delivery and consumption in Oregon. Those entities will be responsible for emissions associated with the power they schedule onto the grid in Oregon. Multi-state entities like Pacific Power, Bonneville Power Administration, and Idaho Power have balancing authorities that cross multiple jurisdictions. Those entities report emissions to the state based on a system’s emissions factor that reflects the mix of generating resources they use to serve their multi-state systems. This factor, multiplied by the load they serve in Oregon, determines their emissions regulated under the program.

This approach to regulating imported power is comprehensive and should account for all emissions associated with power imported to serve load in Oregon. It is expected to cover the following entities:

- PGE for the electricity they import and distribute to their retail customers
- Pacific Power for the electricity they import and distribute to their retail customers in Oregon
- Idaho Power for the electricity they import and distribute to their retail customers in Oregon
- Bonneville Power Administration for the electricity they provide to Oregon consumer-owned utilities
- PNGC for the non-BPA electricity they provide to Oregon consumer-owned utilities
- Consumer-owned utilities or other entities working on their behalf for non-BPA electricity provided to consumer-owned utilities
- Electricity service suppliers for the electricity they provide their direct-access customers

The program will exempt entities from a compliance obligation for emissions associated with imported power scheduled for a consumer owned utility if those emissions annually average less than 25,000 tons. The implementing agency has the authority to administratively retire
allowances for those emissions, thereby keeping the emissions covered by the program but alleviated the administrative burden on entities that schedule very small amounts of power for consumer-owned utilities.

**Distribution of Allowances:**

*Investor Owned Utilities*

The Oregon Climate Action Program is designed to encourage electricity providers to shift toward cleaner sources of energy. An electrical grid powered by wind, solar, hydropower and other renewable resources will reduce emissions associated with electricity consumption, and it can help reduce emissions in other sectors (e.g. transportation) as technologies switch to clean electricity.

Oregon’s electricity sector is already decarbonizing, due largely to market forces driving low carbon alternatives, the state’s renewable portfolio standard, and a state mandate to eliminate coal from Oregon electricity customer rates by date certain. The Oregon Climate Action Program is designed to incentivize further reductions through changes in utility resource planning and dispatch.

The Oregon Climate Action Program allocates allowances directly to retail customers of investor owned electric utilities (IOUs). These allowances can be used for compliance, to minimize rate impacts to retail customers. Rate increases are already anticipated for compliance with existing RPS and coal mandates. These are measures that will also reduce emissions. The direct allocation of allowances to IOUs is intended to avoid customers paying twice for the same emissions reductions. For the period of 2021-2030, direct allocation to these companies will follow a one-time forecast of emissions from electricity to serve the retail customers they supply. The forecast does not change. This forecast will be based on emissions data in the most recent integrated resource plan acknowledged by the Public Utility Commission (PUC) or an update to the plan, as of January 1, 2021. This period corresponds to the timeline during which IOUs are already required to transition from legacy coal to renewable resources. For the period 2031 – 2050, direct allocation to each IOU will decline at a constant amount to an end point in 2050 that represents 20% of the IOU’s average annual emissions for the five more recent years preceding the effective date of the legislation.

The Oregon Climate Action program provides incentives for IOUs to switch to cleaner resources faster, even with a direct distribution of allowances. IOUs that reduce emissions faster than their forecast will have allowances to monetize to the benefit of retail customers supplied by the utility, as overseen by the PUC. If IOUs emit more than their initial forecast, they must acquire additional allowances in the market. This means that utilities consider a price on carbon equivalent to the market value of those allowances as they approach dispatch and resource planning decisions.
Allowances distributed to IOUs can be only used for compliance with emissions associated with the Oregon retail load they supply, or can be monetized to the benefit of the retail customers they supply. Opportunities could include investments in weatherization, energy efficiency, bill assistance, or transportation electrification. These decisions are to be made for the benefit of utility customers, not the utility shareholders. The Public Utility Commission oversees this process in its role as the regulator of investor owned utilities. Any investor owned utility that receives allowances under this program must develop a plan for the use of allowances and report out on how proceeds were expended.

*Consumer Owned Utilities*

Consumer owned utilities in Oregon rely heavily on hydropower, but often balance or supplement that power with market purchases. During periods of low hydro output, they may engage in more market purchases or contract for thermal generation and report higher emissions as a result. The Oregon Climate Action Program directly allocates to entities scheduling electricity for COUs an amount equal to 100% of a baseline emissions in 2021. The baseline for determining the allocation will account for emissions for representative years prior to 2021, hydro-variability, and the addition of large industrial customers or load growth before 2025. The baseline for allocation may be unique to each electric system manager that schedules electricity for public power entities. The amount of allowances allocated each year after 2021 declines at the same rate as the overall economy-wide cap is declining. However, the amount allocated is not allowed to decrease below 20% of the amount initially allocated in 2021.

Allowances distributed to COUs can be used for compliance with emissions associated with their Oregon load, or can be monetized to the benefit of their customers, as overseen by their boards.

*Electricity Price Containment Reserve:*

Each year, an amount of allowances to be determined in rulemaking will be distributed to an electricity price containment reserve. Allowances in this reserve will be used to moderate electricity price increases from unexpected increases in emissions that are outside the control of utilities. The reserve will prioritize distributing allowances to account for unexpected increases in emissions resulting from variation in hydroelectric power generation.