STRAW PROPOSAL SUBCOMMITTEE
REVISED ON NOVEMBER 15, 2006
DRAFT MATRIX OF MAJOR ISSUES FOR A CARBON CAP
FOR CONSIDERATION BY THE GOVERNOR'S CARBON ALLOCATION TASK FORCE

Introduction

The *Oregon Strategy for Greenhouse Gas Reductions* by the Governor's Advisory Group on Global Warming (Dec. 2004) recommended in measure "GEN-2" that the "Governor create a special interim task force to examine the feasibility of, and develop a design for, a load-based allowance standard. This standard would reduce total amounts of CO_2 and other GHG emissions due to consumption of electricity, petroleum and natural gas by Oregonians in a deliberate, predictable, effective, equitable and verifiable manner. The task force should be directed to provide the Governor with its recommendation in time for legislative action, if necessary, in the 2007 session." (pp. 68-71).

The Carbon Allocation Task Force (CATF) discussed the matrix at its October 5 meeting. This matrix incorporates those discussions and later discussions among members of the Drafting Subcommittee. Both the "median" and "alternative" positions are interim and are provided to facilitate CATF discussions. The median position is the position supported by a majority of the CATF or subcommittee members in the judgment of the chair. However, no votes have been taken. Some members stated that they were giving their opinions, but that that the organization that they represented may not have taken a formal position on a specific issue. Support for how to structure the straw proposal in one way or another should not be construed as support for, or opposition to, the overall proposition of a state load-based cap or other CO_2.reduction mechanisms.
These issues have been presented in various papers that are posted along with the agendas for the meetings of the Carbon Allocation Task Force at egov.oregon.gov/ENERGY/GBLWRM/CATF-meetings.shtml and for the Straw Proposal Subcommittee at egov.oregon.gov/ENERGY/GBLWRM/CATF-StrawMtgs.shtml.

Issue	Median Position	Alternative Positions
1. Applicability of a Carbon Cap	a) A load-based CO_2 cap would apply to load serving entities (LSEs) that provide electrical power, including consumer-owned (COU) and investor-owned utilities (IOU), energy service suppliers (ESS), and self-generators. b) COUs with annual emissions lower than 15,000 tonnes would have to report emissions, but their emissions would not be capped unless they exceeded 15,000 tonnes annually. COUs and self-generators can buy and retire allowances and approved offsets to stay under the 15,000 tonne threshold. (See issue #20 regarding size thresholds for self-generators. Other stationary CO_2 sources are addressed in issue #18. A task force for stationary CO_2 sources and other greenhouse gases is addressed in issue #19.)	
2. Carbon accounting methodology	Methodology for calculating emissions will be based on the Oregon Public Utility Commission's (OPUC) emissions label methodology combined with the Washington Department of Community, Trade and Economic Development's methodology for firm purchases from the Bonneville Power Administration. Biomass is assumed to have zero CO_2 emissions. Emissions from waste fuel would be calculated from the carbon content of fossil-fuel-derived materials.	
3. LSE base-period emissions and state base-year emissions (state cap)	a) For the period 2002 through 2006, drop the years with the highest and lowest emissions for each LSE and average the emissions of the remaining three years to create each LSE's base-period emissions. b) The state's base-year emissions, the initial state cap, is the sum of the individual LSE's averaged base-period emissions. c) The State grants each LSE a pro-rated share of free allowances based on its base-period emissions.	
4. Rate of decline in the cap	a) Hold cap level from 2009 through 2011, then decline in three equal steps to 2020 target. b) Allow capped entities to petition the regulatory authority to approve different reduction schedule as long as the cumulative reductions are greater than those under the standard rate of decline of cap and cumulative reductions were not delayed beyond the next compliance period.	

Issue	Median Position	Alternative Positions
5. Distribution of allowances	a) 95 percent of allowances allocated for free to covered entities, prorated on base-period emissions b) 5 percent of allowances auctioned to covered entities. c) By rule, regulating agency the may change the percent of auctioned allowances to up to 10 percent upon petition by a covered entity and a finding that there is substantial cause to increase the percentage.	
6. Auction of allowances	a) Only covered entities or joint operating agencies of COUs can participate. b) Auction sets one final price for all allowances in that auction. c) First-in-line access to allowances by COUs, ESSs and self-generators with the remainder to IOUs at the same price. Need for "first in line" allowances determined by rule.	
7.1. Use of auction revenues	a) Funds earmarked for energy efficiency, renewable energy and offsets. b) Regulatory authority would have option to direct up to 25 percent of the funds to support broad programs that would achieve CO_2 reductions in state, but not necessarily in a specific amount for a particular LSE, e.g. market transformation. c) There would be different treatment for auction revenues that would have flowed back to self-generators and ESSs.	
7.2 Distribution of auction revenues	a.) Funds other than those reserved through 7.1(b) would be distributed proportionately to LSEs or joint operating agencies (for COUs) per base year emissions. b.) Funds from 7.1(b) would go to NGO or be distributed through an RFP. Either way, there would be a requirement that the funds be spent on programs that would help LSEs reduce their emissions.	
8. Banking	a) Allow banking of excess allowances with a requirement that capped entities surrender oldest allowances first—"first-in-first-out." b) Publish data on the number of allowances held by each covered entity.	

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9. Multi-year compliance periods	Four 3-year compliance periods initially: (1) 2009 – 2011; (2) 2012 – 2014; (3) 2015 - 2017, and (4) 2018 -2020.	
10.1. Alternative compliance payment (ACP) level	Have an alternative compliance payment for failure to surrender an adequate number of allowances for a compliance period.	a) ACP at $40 per tonne b) ACP at $35per tonne
10.2. Use of alternative compliance revenues	a) ACP funds would go into an escrow account for each LSE. b) Each LSE would have up to the end of the following compliance period to demonstrate to the regulatory authority that it has an effective plan for reducing emissions with a priority for on-system reductions from energy efficiency and renewable generation and has committed funds to implement that plan. c) If funds remain in the escrow account at the end of the following compliance period, the regulatory authority would distribute the funds to a third-party to use them with requirement that they be spent on emissions reductions on behalf of the LSEs generally and, to the extent practicable, on emissions reductions for the specific LSE.	
11. Trading	a) Trading only among Oregon LSEs unless the Governor directs the regulating agency to initiate a rulemaking to permit trading with other state-based systems. Oregon LSE's would be allowed to buy allowances issued by other states and sell allowance to entities covered by another state's CO_2 cap only if the rulemaking determined that the other state's CO_2 cap-and-trade system is consistent and comparable with the Oregon cap-and-trade system. b) LSEs may retire allowances on behalf of their retail customers.	

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12. Offsets	a) .Legislation would require that all GHG offsets be real, quantifiable, verified, additional, permanent, and enforceable through rulemaking. b) Legislation would limit offsets to 1.9 percent of each LSE's pro-rated share of the state cap for each compliance period, except for COUs and self generators. (This percentage is equivalent to 25 percent of the total reductions over the period 2009 through 2020.) c) COUs would have the option to use offsets to meet all required reductions from their base year emissions that come from the Bonneville Power Administration power mix. d) Self-generators would have the option to use offsets to meet all of their reductions. e) Offsets allowed from CO_2, CH_4, N_2O, PFCs, SF_6, and HFCs, based on global warming potential as expressed as CO_2–equivalent. f) The state will set and collect an administrative fee for establishing and implementing a program that permits covered entities to surrender offsets for compliance with the cap.	a) Limit offsets for IOUs and ESSs to 1.5 percent of each LSE's pro-rated share of the state cap for each compliance period. b) Limit offsets for IOUs and ESSs to 0.95 percent of each LSE's pro-rated share of the state cap for each compliance period (combined with Alt. b) in Issue 13 below).

Issue	Median Position	Alternative Positions
13. Role of renewable portfolio standard (RPS)	a) On-system (bundled) renewables count for both carbon cap and RPS b) The lb.-CO_2 per MWh for unbundled renewable energy certificates (RECs) would be the same as for bundled RECs c) An unbundled REC can be counted for compliance in both the carbon allocation process and an RPS as long as unbundled RECs are limited to 20 percent of the RPS compliance. Unbundled RECs beyond this level would have to meet offset criteria (Issue 12) and would be counted against the offset limit.	. a) If the RPS does not allow unbundled RECs from throughout the West (WREGIS RECs), revisit this issue. b) Limit use of unbundled RECs to 0.95% of each IOU and ESS pro-rated share of the CO_2 cap. Unlimited banking on unused unbundled RECs (combined with Alt. b) in Issue 12 above).
14. Borrowing	No borrowing of allowances from future compliance periods is allowed.	
15. Provide a circuit breaker if the total amount of alternative compliance payments (ACP) exceeds a level set in legislation	If the circuit breaker were tripped for a compliance period, then the number of allowances issued would stay flat for one year into the succeeding compliance period. Thus, if the total number of ACPs purchased by capped entities exceeds (a) the total state CO_2 allowances normally issued during the compliance period plus (b) all banked (and borrowed) allowances carried into the period by more than 10 percent in any one compliance period, the state would issue allowances in the next year equal to the allowances it issued in the last year of the compliance period in which the circuit breaker was triggered. Allowances issued in subsequent years would be unchanged from the original path.	
16. Accelerate decline in state cap if auction price is below some level	No	

Issue	Median Position	Alternative Positions
17. Adjustments	a) Load shift: Allocated allowances would transfer with shifts in load between two LSEs at the allowance rate (tonnes of CO_2 per MWh) of the LSE that initially lost load. [1] b) For sites served by multiple LSEs (an LSE is a utility, an ESS or a self-generation project) allowances freed up by a conservation project would be apportioned based on the relative funding of the conservation project by the LSEs. c) New entrants: Hold an allowance pool during each year for new entrants, i.e. new self-generating loads, and new large single loads. • At the end of each year, pro-rate the unused allowances to the covered entities and the auction pool, per issue 5 and add extra allowances to be auctioned to the second semi-annual auction. • Set the sizes of the allowance pool and new large single loads in rule. The pool not to exceed 3 percent of total number of allowances to be issued in that year. d) Hydro adjustment: Provide a hydro-mechanism that extends the compliance period by one year for each year of "exceptionally bad hydro generation" (to be defined by rule). This would not change the cap.	

[1] Clarifications to "17 (a) median" on Load Shifts: If the self-generation equipment existed before passage of the act, then base-line allowances would be the actual base period emissions or the allowance rate of their utility whichever is more. Increases in self-generation MWh at existing facilities beyond average annual generation in the base period would get allowances at their utility's emission rate (the LSE losing load). This is a load shift.

Issue	Median Position	Alternative Positions
18. Stationary Fossil Fuels (e.g. direct use of natural gas, propane, oil and coal). Of total Oregon CO_2 emissions: industrial fuel is 12 percent; residential fuel is 5 percent; and commercial fuel is 3 percent. Electricity use is about 42 percent and transportation is about 38 percent.	a) Apply a charge—"Carbon Dioxide Reduction Charge" (CDRC)—to stationary fossil fuel use. This charge would not be applied to fossil fuel used for electric generation, except that self-generation not covered under this cap-and-trade system would pay the CDRC. Funds to be used to reduce stationary CO_2 emissions b) Total revenue collected to equal 1-to-3 percent of fossil fuel retail revenues, e.g. the fund would range from $16 to $50 million per year based on 2002 data. c) The CDRC on fossil fuels would be based on the carbon content of the fuel used. Based on 2002 data, the assessment would range from $1.50 to $4.50 per metric ton of CO_2 in the fuel, corresponding to the 1 to 3 percent of retail revenues, respectively. Assessment would also apply to cement process emissions. d) Set a limit on measure costs of $25 of non-participant funds per tonne of CO_2 reduced. e) The regulatory agency would oversee program delivery. Funds from small natural gas users could be managed by the gas utilities. f) Large stationary emitters (e.g. more than 5,000 tonnes of CO_2 emitted per year) could self-direct their funds and could use funds for capital expenditures to switch to lower CO_2 fossil fuels or renewable fuels.	. **RESIDENTIAL/SMALL COMMERCIAL DIRECT EMISSIONS** • Expand mandate of Public Purpose Charge to capturing carbon reduction opportunities necessary to meet cap requirements • Increase in PPC set at no greater than 3% of retail revenues for these customer classes (no more than $25 programmatic cost per tonne CO2). • OPUC administers EE funds (via ETO) for customers of regulated gas utilities; ODOE administers funds (via ETO or other) for petroleum suppliers. • The public benefits charge or fees currently paid by customers or suppliers are included in the 3% cap. • Expenditures for GHG reductions might be administered differently than EE $ **With: Industrial a), b) or c) below:** **INDUSTRIAL DIRECT EMISSIONS** a) **No CRDC** Only mandatory reporting for Industrial LSEm's beginning in 2008. b. **Industrial Emission Impact Study *With* Stand-down on Emissions** • No CRDC • Establish 2002-2006 baseline for industrial emitters • Mandatory reporting • Study: (a) industry-specific economic and operational impacts ; (2) technical Alternative: Industrial b) (CONT.) opportunities to reduce emissions with cost/benefit

18. (CONT.) Stationary Fossil Fuels (e.g. direct use of natural gas, propane, oil and coal).	Median Proposal (see above)	analysis; (3) economic opportunities to remarket technologies/operations products elsewhere in industry. Report by 12/15/07. • *No or minimal (<5%) increases in GHG emissions during 2007-2009; voluntary reductions encouraged and registered* c. **Industry Emissions Impact Study With *NO* Stand-down on Emissions** • No CRDC • Establish 2002-2006 baseline for industrial emitters • Mandatory reporting • Study: (a)) industry-specific economic and operational impacts; (2) technical opportunities to reduce emissions with cost/benefit analysis; (3) economic opportunities to remarket technologies/operations products elsewhere in industry. Report by 12/15/07 • *Voluntary reductions encouraged and registered* **SEPARATE ALTERNATIVE** d) Provide for implementation of the median CDRC proposal in August 2009 unless an ODOE rulemaking adopts an equally or more effective alternative system to reduce stationary CO_2 emissions. The August 2009 date gives the legislature time to overrule the ODOE alternative system.

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19. Future Task Forces	Establish a governor's task force to propose legislation by 2009 on other greenhouse gasses to be capped or other regulations or incentives to reduce emissions of CH_4, N_2O, PFCs, SF_6, and HFCs and whether to establish a cap-and trade system for CO_2 stationary emissions (as an alternative path to the CDRC payments).	
20. Threshold for including self-generators in the load-based cap .	a) If equipment to produce power for use at an entity's own site has a combined capacity greater than 5 MW or emits more than 15,000 tonnes of CO_2 in any year, the emissions from that equipment is permanently in the cap-and-trade system. Provide authority for mandatory reporting to be used only if existing reports to the state are not adequate. [2]	
21. Administrative roles	Oregon Department of Energy would adopt rules and administrative procedures.	
22. Funding administrative costs	Collect a small administration fee per allowance issued.	
23. Oregon Public Utility Commission	Statute would require OPUC to consider carbon cap compliance in rate-making decisions and integrated resource plan acknowledgments for IOUs.	

[2] To include comparably-sized renewable self-generation in the cap-and-trade system, all self-generators above 5 MW should be included. Emissions of 15,000 tonnes per year are consistent with 5 MW natural gas generator at an efficiency of 8,000 Btu per kWh and operating 80 percent of the year. Fossil-fueled generators of 5 MW to 25 MW that are only used for emergency standby (less than 500 hours per year) could be exempted from the cap-and-trade system.

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24. Federal and state greenhouse gas regulations	a) ODOE would review, federal action that requires or results in absolute, mandatory reductions in the same greenhouse gas emissions capped by Oregon (including indirectly with rules targeting up-stream fuel supplies). ODOE would also propose legislative changes. There would be no delegated authority to pause the cap. b) The Department of Energy will report to the governor and legislature when there are opportunities to cooperate in a mutually beneficial manner with other states or nations that have adopted mandatory reduction of greenhouse gas emissions.	
25 Administrative Reports	Each LSE would provide an annual progress report on its emissions and the number of allowances it holds. No less than every three years, each LSE would provide its forecasts of emissions and its intentions on reductions and purchases of allowances and offsets..	
26. Administrative Review	Prior to each biennial legislative session, the Department of Energy would conduct a public review of the performance of Oregon's carbon reduction system, compare Oregon's system with other existing and planned systems in the U.S. and make legislative recommendations.	