

STAFF DRAFT

OPTIONS FOR AUCTIONING CARBON ALLOWANCES

At the January meeting of the Carbon Allocation Task Force, the members asked staff to prepare a list of options for auctioning allowances. The list below is meant to be inclusive of what staff has heard from task force members. Items are not listed by priority. Concepts are grouped to facilitate clarity. In order not to exclude a nuance inadvertently, staff listed some options that are similar.

Background

These options assume that the state issues allowances annually, both for free allocation and for auction. The Carbon Allocation Task Force has placeholders for the following percentages of allowances to be auctioned: 0 percent, 5 percent and 20 percent.

To provide a context for a discussion of the revenues that might be generated by an auction, staff prepared a graph that shows potential revenues by auction price per tonne, i.e. per allowance. It uses a scenario of a flat cap for the period 2009 through 2012, then a straight line decline to 2020. It makes assumptions about how the free allowances would be distributed and assumes a 5 percent auction. This is one example based on some of the placeholders the task force is considering. Multiple scenarios are possible; this is just one example of the amounts of revenues that might be raised. The graph and its explanation are attached.

One member has raised the issue of whether the state should issue any allowances itself. He proposed an alternative that the Legislature would delegate that function to an independent, qualified organization. That is a separate issue from the auction options listed here, but its resolution would affect the context for the auction.

A. WHO CONDUCTS THE AUCTION?

1. If state conducts auction, funds would flow through state agency, subject to budgets and legislative direction.
2. If state issues allowances to third party for it to auction, then the legislation would have to describe the qualifications needed to receive allowances and designate an agency oversee the process. Oversight would include the choice of the third party and regulating the auction and dispersal of funds.
3. Either way, there should be some statutory direction on use of revenues from auction.

B. WHO RECEIVES REVENUES OF THE AUCTION?

1. **Legislature/State agency.** Permitted use of funds could be designated in legislation, but it would become a matter of the budgetary process at each legislative session.

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2. **Qualified organization.** The statute could define the qualifications that an independent or quasi-independent organization would have to meet in order to receive the funds and would define how the organization could use the funds. Both the Energy Trust of Oregon and The Climate Trust are examples of qualified organizations that operate on this model.
3. **Identify specific recipients.** This could be a new type of qualified organization whose function would be to distribute the revenues to other entities or it could be existing organization such as the Energy Trust of Oregon, The Climate Trust, community action agencies, or other entity that delivers energy efficiency, renewable resources, or carbon offset programs.
4. **Load serving entities.** The funds could be returned to LSEs with a requirement that the funds be spent to acquire additional energy efficiency, renewable resources, or on other actions that reduce carbon emissions such as those options listed below.

C. HOW SHOULD REVENUES FROM AUCTION BE USED?

Administration

1. Cover administrative cost of the auction.
2. Cover administrative costs for the entire cap-and-trade system. Costs would include verifying and adjusting baselines, issuing allowances, tracking allowances, retiring allowances, and monitoring compliance by load-serving entities. There would be cost for software, for staff, and possibly for contractors. These functions would likely be a state responsibility, either by agency staff or through contract, or both.

An alternative model that a member proposed would be for the LSEs to pay an administrative fee, probably on the order of a few cents per allowance, to cover all administrative costs, both allowance distribution and auction, or to cover the costs of the state administration if it is separate from the auction function.

Direct funds to reduce CO₂ or other greenhouse gas emissions.

3. Fund acquisition of energy efficiency in hard to reach sectors and for higher-cost renewable resources.
4. Fund acquisition of energy efficiency measures and renewable resources that require collective state-wide efforts (e.g. building and equipment code improvements).
5. Fund purchase of offsets from any source, as defined by statute or rule.

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6. Fund periodic competitions for measures that accelerate deployment of low-cost energy efficiency and low- and zero-carbon generation.
7. Create specific funds that are targeted to one of the following criteria (based on the principles that guided the Advisory Group on Global Warming):
 - a. Fund the most cost-effective carbon reduction measures.
 - b. Fund activities that create long-term economic well-being with an "investment strategy" that buys efficiency savings, new technologies, energy price stability and a competitive edge in marketing the tools developed and the lessons learned.
 - c. Fund innovation, especially if it leads to marketable products and services.
8. Support direct incentives to customers for energy efficiency measures that are significantly beyond (e.g. twice) current standards or practice or significantly increase the pace of technology use. A CO₂-based heat pump, such as the one PGE is field-testing, is an example.
9. Support direct incentives to customers for energy efficiency measures or renewable resources that have high current costs, but significant long-run potential.
10. Fund efficiency measures that have ancillary greenhouse gas reduction benefits, such as technologies that achieve high efficiency and also reduce use of non-CO₂ green-house gases, such as refrigerants.
11. Fund other greenhouse gas reductions from electricity sector, e.g. fuel switching that results in a net reduction in CO₂ or greenhouse gas emissions.
12. Fund infrastructure for developing new renewable energy technologies, e.g. a public/private partnership to demonstrate wave energy generation or transmission infrastructure to support a wave energy generating site.
13. Fund transmission infrastructure for remote renewables.
14. Use revenues to target hard to reach customers, such as particularly inefficient residential and commercial buildings that would not likely be improved without higher than average incentives.
15. Target efficiency programs fully or partially to the service areas of the LSEs from which funds came, whoever implements the programs.

Returning funds to LSEs

16. Return the revenue to LSEs that have reduced their emissions below the level needed to meet their target for the reporting period based on their baseline and the

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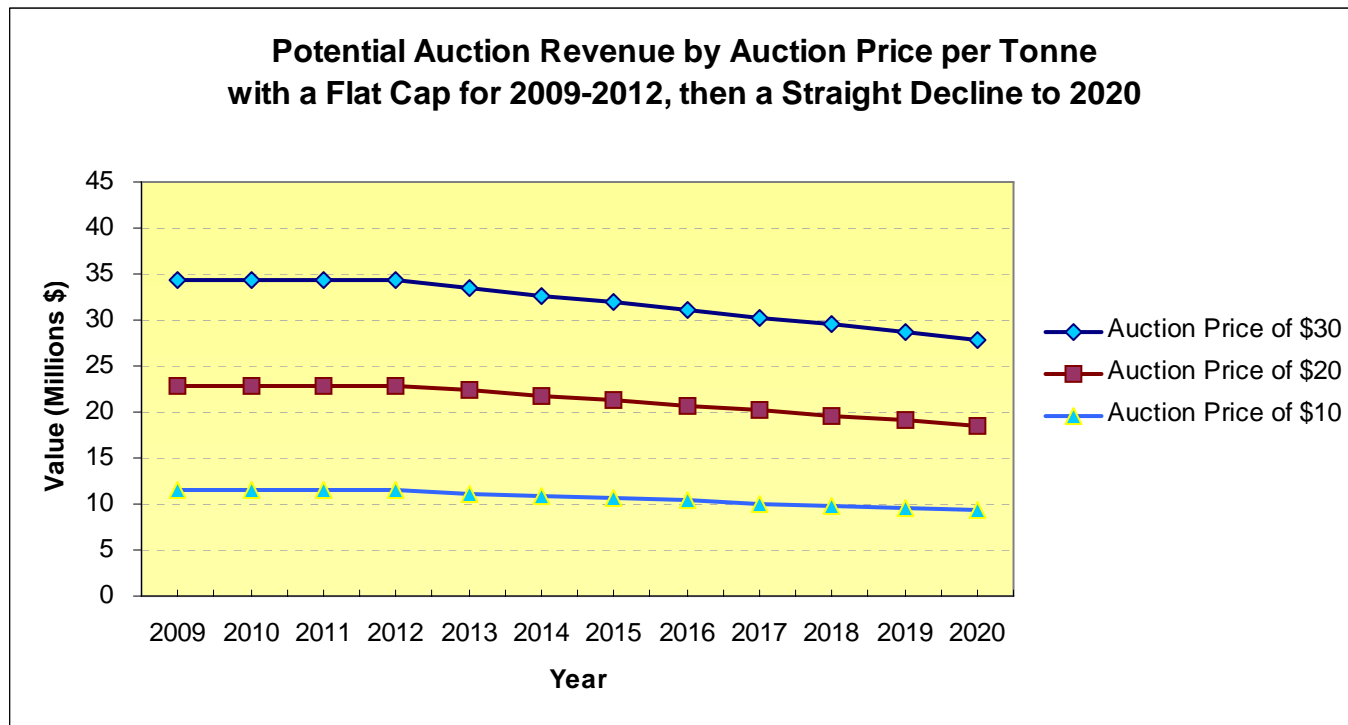
2020 or 2050 target, e.g. if they are below the slope for their emissions target, with provision that funds must be used for energy efficiency and renewables in manners described above.

General Fund

17. The Legislature would use funds without a presumption that they would be allocated in a manner that relates to the electricity sector or for any particular purpose.

Attachment: Graph of potential auction revenues and discussion

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The graph above illustrates a scenario with a flat cap for years 2009-2012, then a straight line decline to 2020. The discussion assumes a three-year compliance period, although values are shown annually. Values are 2006 dollars. The graph also assumes the following allowance distribution, based on one set of placeholders.

- With 95 percent of allocated allowances based on emissions and 5 percent based on MWh.
- With 95 percent of allowances allocated for free and 5 percent sold in auctions

During the first compliance period (2009-2011), the annual auction revenue ranges from \$11.4 million at an auction price of \$10/tonne to \$34.3 million at an auction price of \$30/tonne. At \$40/tonne auction price, which is the proposed circuit breaker price, the revenues would be \$45.7 million. That is not graphed because the circuit breaker will be discussed in a later meeting.

For the second compliance period (2012-2014), the annual auction revenue ranges from \$11.2 million at an auction price of \$10/tonne to \$33.6 million at an auction price of \$30/tonne. At the circuit breaker price of \$40/tonne, the revenue would be \$44.8.

For the third compliance period (2015-2017), the annual auction revenue ranges from \$10.4 million at an auction price of \$10s/tonne to \$31.1 million at an auction price of \$30/tonne. At the circuit breaker price of \$40/tonne, the revenue would be \$41.4 million.

For the fourth compliance period (2018-2020), the annual auction revenue ranges from \$9.6 million at an auction price of \$10/tonne to \$28.7 million at an auction price of \$30/tonne. At the circuit breaker price of \$40/tonne, the revenue would be \$38.2 million.