

Carbon Allocation Task Force
Portland State University
College of Urban and Public Affairs
506 SW Mill Street, Portland, OR 97201
January 12, 2006

Task Force

David Stewart-Smith, Chair
Tom O'Connor, Gary Bauer, Margie Harris, Jim Lobdell, Jonathan Williams, Julie Brandis, Jason Eisdorfer, Virinder Singh for Bill Edmonds, James Edelson, Steve Grover, Angus Duncan, Jeremiah Baumann, Mike Burnett, Michael Early,
Via conference call – Peggy Duxbury, Bob Therkelsen and Jim Maloney

Ex Officio

John Savage; David Van't Hof via conference call

Technical Consultants

Hal Nelson, Richard Cowart

Staff

Phil Carver, Sam Sadler, Bill Drumheller, Justin Klure, Jenifer Wetherbee

Decision Topics and Schedule

Chair Stewart-Smith called the meeting to order shortly after 9:00 AM. He asked if anyone had comments or questions about the memo of 1/6/06 re the topics for future meetings. Margie Harris said she would like to develop methods to quantify benefits of a carbon allocation standard. She suggested putting it under role of determining offsets. She also wanted to add BPA's conservation rate credit and the OPUC's IRP process to item M under section 12 - Determine possible roles for a renewable portfolio standard. Chair Stewart-Smith didn't agree that's where it should go. Staff agreed to incorporate the comments in an appropriate section. Phil Carver said he thought the Technical Working Group (TWG) meetings are a good place to have these types of discussion.

Mike Burnett suggested developing a list of what the full schedule of benefits and costs might end up being just a narrowly defined economic list. He stated that when making placeholder decisions members need to make sure they're discussing not just cost implications, but how an action affects the benefits. Michael Early added that costs and benefits should not be looked at in just gross terms because there could be a mixture of costs and benefits for different groups; therefore, an analysis has to recognize there might be some unfairness in how the cost and benefits are spread.

Sam Sadler mentioned the schedule for upcoming meetings and noted is showed that the TWG would report what it had done at the April meeting. Chair Stewart-Smith said the Task Force needs a strong TWG to work with the inputs for the models and in the March-April time frame give it some good draft output. The TWG should ensure that the discussion identifies all the benefits it can. He added the TWG is open to anyone and encouraged someone from each organization be a part of it.

The dates of the upcoming TWG meetings are 1/26, 3/2, 4/6 (rescheduled to 4/11), 5/11 and 6/13. Dates can be changed if necessary. Meetings will most likely be in Portland. The working group is modeled after the TWG process of the Governors Advisory Group on Global Warming and is a great way to get a lot of information processed between meeting so the Task Force can deal with policy issues.

Principles

Mr. Burnett brought up the fact that the CATF has a list of principles and that it is important for the TWG to look at them to make sure the product it comes up with addresses them. Dr. Carver added that ODOE will send an invitation to the Vice President of the Resource Planning at Idaho Power to participate in the TWG.

RGGI

Chair Stewart-Smith introduced Richard Cowart, who had spoken at the first meeting of the Task Force. He is familiar with the Regional Greenhouse Gas Initiative (RGGI) process in the Northeast. He will be available to talk with anyone and can provide technical support. Mr. Cowart is a principal in a non-profit organization called the Regulatory Assistance project, which is not a consulting firm. It is funded to be able to advise governments. The Energy Foundation and two other smaller foundations have been encouraging them to assist the West Coast efforts.

Mr. Cowart said the Northeast states found that they could design a mechanism to deliver energy savings more quickly and cheaper than originally thought. They also created a safety valve mechanism to moderate the cap-and-trade program if it got too costly. Chair Stewart-Smith pointed out that our circuit breaker discussions aim for that. Mr. Cowart agreed and added that putting in a circuit breaker turned out to be an important lesson to learn from their efforts.

A question is asked of Mr. Cowart about the size of RGGI's modeling budget. Mr. Cowart couldn't recall, but Mr. Sadler said it was about \$750,000. Dr. Carver added that the Task Force has Hal Nelson's model available to it as well as a west-wide hourly dispatch model that Jeff King of the NW Power and Conservation Council is willing to run. The modeling will be made up of spreadsheets the TWG creates.

Circuit Breaker

Mr. Early was worried that if LSEs always have recourse to the circuit breaker, then the curve would be set too steeply. Dr. Carver pointed out that a circuit breaker caps the cost. Peggy Duxbury added that when talking about a circuit breaker, the Task Force needs to look at how that actually changes the nature of trade. Julie Brandis said she thinks the 3 percent Public Purpose Charge (PPC) needs to be added into the cap.

Auctions

Mr. Sadler continued his presentation from last month's meeting involving setting baselines. The issue is how the allowances will be distributed. They will either be distributed for free, which is called allocation, auctioned or some combination of the two. Some of the questions to discuss: should some or all of the allowances be auctioned, if there's an auction, but it's not a 100% auction, what's a reasonable percentage that should be auctioned, and if there were a percentage auctioned, should it be the same over

time? If the Task Force recommends auctions, what should the range be? The TWG should be modeling in terms of how much will be auctioned.

Mr. Early asked who would own the allocations that would be auctioned? Dr. Carver answered that the state creates the allowances and distributes them either for free or by auction. The buyer would own them after purchasing them. The money that might go to the state comes from selling allowances.

Chair Stewart-Smith asked Mr. Cowart if there are analogies in RGGI that are instructive here. He answered:

- 1.) The acid rain program created a pool of allowances that could be bought both for price-revelation purposes and also to help mitigate crunches where facilities are desperate.
- 2.) Have a three year compliance window, not just one year, so short term shortages won't create highly volatile markets.
- 3.) Create consumer allocation, a way of returning the windfall back to customers.

James Edelson said he thought the way to have the lowest cost system is to acquire all cost effective energy efficiency, whether it's expanding tax credits or increasing the Energy Trust. The Task Force needs to ensure auction revenues make use of cost effective energy efficiency.

Dr. Stephen Grover wants to stay with 0 percent, 20 percent and 50 percent placeholders for auctions. Dr. Carver wants to model 5 percent and doesn't want more than three placeholders for auctions. Mr. Mr. Sadler suggested that the Task Force discuss further questions before deciding on placeholders. Having a discussion on how funds would be used it might give us an idea of what range to look at. Also if auctions create revenues, how they would be used.

Mr. Cowart suggested that no matter how big an auction is, money could be recycled back to the total pool of LSEs. The revenue would not go back to the particular LSE who paid it. It would be distributed to all LSEs in proportion to their allocation. This technique is based on the assumption that the auctioned allowances came from the total cap and would have otherwise been distributed if there had not been an auction. This could create transparency and fluidity in the market without costing participants too much. An additional option is to give revenue back on a performance basis and to ask for RFP for low carbon investments. Angus Duncan added that one could reassign money back to utilities for programmatic purposes.

Ms. Harris thinks the technical committee needs to look at the issue of different ways of allocating based on different criteria i.e. equity and cost issues. Mr. Eisdorfer urged everyone to agree that if revenues are collected, that they get recycled into the system going toward energy efficiency or other ways to reduce carbon.

Chair Stewart-Smith asked if the Task Force is close to agreeing on placeholders at 0, 5 and 20 percent auctions; and, also if the placeholder goal is to put revenue back into the

additional carbon reduction. Tom O'Connor said he thought the Task Force needed to create structure to make sure money stays with utilities. Mr. Sadler suggested having the drafting committee lay out these options. Chair Stewart-Smith asked, beyond the cost of running the program, how does the Task Force best reinvest any revenues that are raised? Ms. Brandis suggests that some of it go to rate relief. Chair Stewart-Smith asked Mr. Sadler to do a short write up on all the different options that were discussed today and give it to the drafting committee to define and explain better.

Self-generators

Phil Carver started the discussion about a threshold for including self-generators under the cap. The straw proposal is for a threshold at 25 MW capacity. The reason to include self-generators is to try to avoid leakage. There is an interest in creating an incentive for low emissions generation.

When transferring loads between load-serving entities (LSE's), allowances of the LSE losing load would move to the entity gaining load at the same allowance rate that the losing entity had. They would lose the load responsibility and whatever allowances that were associated with it. If a self-generator decided later to have the utility again serve the load, the allowances would transfer back at the original allowance rate to the utility that lost them. That would keep them from being able to ratchet up their allowances by getting them at a high rate then turning them back at a low rate. The idea is to keep the utility indifferent to losing load but to provide whatever incentive those allowances have to the entity that self-generates. This would also apply to Energy Service Suppliers, which relates to PacifiCorp and PGE under SB1149.

Mr. Duncan asked, "if I sell a 25 MW biomass plant to PGE, do they get to count my plant against their cap or do they need to negotiate with me?" To count as biomass, PGE would have to buy the green tags associated with the power. If it were a self-generating plant, there would be no negotiation because it would be treated as an LSE.

Dr. Carver stated that 25 MW is a tentative threshold and that he will look at current self-generators, but wants the Task Force members to think about the future and what kinds of leakage or runarounds are possible for new self-generators. If the threshold were set too high, a runaround would be if a new self-generating plant were built that was smaller than the threshold. A rulemaking process might deal with the issues rather than hard-wring the threshold into the statute. Jim Lobdell reminds everyone that utilities are a provider of last resort.

Dr. Carver asked at what threshold should the Task Force try to bring self-generators under the umbrella and at what point do the Task Force say it's too small to worry about? Mr. Burnett stated there are two kinds of self-generators, ones burning new fossil fuel and ones burning existing fossil fuels so it's important to have a system that incents co-generation.

Mr. Cowart agreed with Mr. Burnett. Supply-side cap-and-trade systems set aside allowances for new power plants. One could take a certain amount of allowances from the beginning of the program and put them in a bank that can be awarded to people who are doing things one wants to incent. One could also have a rule that says when a

customer used to be covered under a utility cap and then becomes a co-generator, some of the freed-up allowances could incent other new co-generators.

Dr. Carver discussed the incremental heat rate of co-generators. Compared to a facility's current way of providing process heat, what is the net heat rate for a co-generator? For certain levels of performance, allowances would be awarded, but beyond that they would have to turn in allowances.

Should the Task Force try to use the system of allocation of allowances to incent very low emitting self-generators? Alternatively, should the Task Force leave that to a process where the state is collecting auction funds? A third alternative is to have utilities be responsible for meeting these targets, and it's their job to incent the low emitting self-generators to get them off their system. Would that be a sufficient incentive for the utility? Perhaps self-generators would ask the utility for help installing equipment and free-up allowances for the utility to keep?

Chair Stewart-Smith asked if the Task Force has a our placeholder? Dr. Carver said staff will investigate the below-25 MW, but keep 25 MW as the threshold for now. Staff will research how many generators (other than stand-by generators) are between 1 and 25 megawatts. Jeff King keeps a list from 1 MW up, and staff will also check with DEQ.

Adjustments to Baselines

Mr. Sadler brought up a list of questions to be discussed. What happens to allowances when an LSE closes? How small would electricity production have to be for a self-generator to be considered closed--closed meaning no longer producing energy? What happens to the allowances? Also, how would the system deal with a new LSE new coming into the system? Is there a reserve for that; does it go the auction to purchase its allowances? Are baselines fixed or adjusted? Chair Stewart-Smith liked the idea of a reserve pool of allowances that is available for new loads. He thinks there should be criteria for how those are allocated.

Dr. Carver asked what triggers new single load policy. Last month the Task Force decided on 10 megawatts or some fraction of a utility load as a threshold. If allowances to cover new large single loads don't come from the serving a utility, where do they come from? Would the Task Force set aside 1 percent of allowances until a pool reaches a certain size and keep it for reserve, or once this new load is triggered would the Task Force take them from some future allocation of free or auctioned allowances?

Mr. Duncan stated that conditions in 10 years will be different from those now so the Task Force needs to reallocate, or update, the baseline for allowance allocations every five years or so. Updating the baseline to reflect changing circumstances needs to be done in a staggered or delayed way.

Virinder Singh was worried that when trading allowances, given a small market, it would be confusing to update the baselines. Mr. Singh thinks the Task Force needs to focus on cap levels, where the Task Force want to go and what it really means. He is concerned that the Task Force is trying to come up with economic mitigation activities and it doesn't know what the impact will be. Mr. Cowart also thinks generic updating probably

isn't a good idea. He does think it would be a good idea to have some sort of reserve set-aside to allow the system to go forward smoothly. Mr. Burnett told how New South Wales, Australia, set up a trading system with an updated baseline adjusted on the basis of the number of households served.

Chair Stewart-Smith asked if there should be a reserve set aside that is within the cap? Mr. Burnett would rather have all of the allocations given to load-serving entities up front instead of a reserve. Mr. Duncan agreed with Mr. Burnett, if the Task Force had mechanisms for adjusting for a significant percent increase in load. Mr. Duncan said he would like to spend time with Mr. Cowart and the TWG to see if they can devise an index adjustment mechanism that was not specific to gains or losses or efficiency affecting load, but did provide for some ability to adjust over time.

Mr. Lobdell is worried about the circuit breaker and asks if this is company by company or state in total? Dr. Carver answered that it is the state in total. The proposal is that allowances can never cost more than \$40. Mr. Cowart added that the RGGI cap came out a lot less than \$40.

Chair Stewart-Smith stated that the placeholder is an allowance reserve, but the form hasn't been decided on. Whether it's a pool, adjustments to the slope, etc., but there will be some bump reducer. The TWG will work on this. Dr. Carver added that TWG will draft a survey instrument to clarify the information submitted to the PUC's annual statistical report for consumer-owned utilities and Idaho Power Company.

Placeholders

Mr. Singh recommended a document on ODOE's web site the placeholders proposed so far. Chair Stewart-Smith agreed that staff should keep running tally on web of what placeholders the Task Force has come up with.

Meeting was adjourned about 12:30 PM.