

## **Carbon Allocation Task Force**

Two World Trade Center  
121 SW Salmon St., Portland, OR  
December 8, 2005

### **Task Force**

David Stewart-Smith, Chair; Steve Bicker for Gary Bauer, Julie Brandis, Mike Burnett, Angus Duncan, Michael Early, James Edelson, Virinder Singh for Bill Edmonds, Jason Eisdorfer, Steve Grover, Adam Serchuk for Margie Harris, Jim Lobdell, Jim Maloney, Tom O'Connor, Scott Stewart for Jonathan Williams.

### **Ex Officio**

Michael Grainey, David Van't Hof

### **Technical Consultants**

Hal Nelson

### **Staff**

Phil Carver, Sam Sadler, Sisily Fleming, Jenifer Wetherbee

Chair Stewart-Smith called the meeting to order at 9:08 am. Introductions were made. Chair Stewart-Smith noted that Jenifer Wetherbee would be taking over the administrative duties for the Task Force, and that members may now contact her for information. There was an overview of the agenda.

### **Cap and Trade in the United Kingdom**

Hal Nelson, Portland State University, opened his presentation on Climate Policy in the United Kingdom (U.K.) by explaining his background and other projects that he has worked on. He explained that the UK is the world leader in greenhouse gas emissions trading schemes, with a very aggressive Renewable Portfolio Standard (RPS). He explained that there are two markets in the U.K., the renewable market and the E.U. (European Union) Emissions market. Overall the U.K. market closely resembles what the US could be.

The U.K. has developed its National Allocation Plan for the E.U. Emissions Trading Scheme (ETS). Phase I of the Scheme began on January 1, 2005, and will run until December 31, 2007. ETS covers about half of the CO<sub>2</sub> emissions in the U.K. It prohibits banking and borrowing. Phase II will run from 2008-2012 and is expected to take a benchmarking approach, which is issuing allowances based on the best available technology. He explained the methodology, New Entrant Reserve, impacts, U.K. Climate Change Program, potential problems, Clean Energy Program linkages, program design implications, and funding. Clarifying questions were asked and answered regarding the U.K.

### **Emissions Accounting**

Phil Carver began his presentation on emissions accounting, which he had previously reviewed with the CO<sub>2</sub> emissions sub-committee. He explained the "Oregon CO<sub>2</sub> emissions from electricity" use handout, which he provided to the group. He noted that

there was a discontinuity between the data analysis techniques for 1990-2000 and for later years. While the apparent increase in emissions between 2000 and 2001 was an artifact of the different data analysis techniques, the downward slope of the line between 2001 and 2004 was indicative of the actual trend.

Dr. Carver explained the tables on the “rough base emissions” spreadsheets he also provided to the group. He explained where the numbers came from and how they relate to each other in the tables. Mr. Carver stated that the analysis does not assume “business as usual, i.e. no change from current actions. The numbers assume that the load growth will be met through currently cost-effective renewables and efficiency by 2020, based on the Northwest Power and Conservation Council’s energy plan. There was a discussion of the definition of “business as usual” and whether it is fair to assume that load growth can be met solely through increasing renewables and efficiency. It was decided that the tables should run the highest cost case, least cost case, and numbers factoring in acknowledged IRP’s.

Regarding how the analysis treated the differences between auctioned and free allowances. Dr. Carver stated that the intent was not to come up with definitive answers, but to come to a conclusion on baselines and a base period to move forward with.

### **Process**

Before starting the discussion of “Baselines and Allowance Distribution,” there was a discussion of the Task Force’s process of reviewing concepts. Julie Brandis stated that the idea of “coming to agreement” on decisions made her uncomfortable, and she asked whether the group is working on a consensus to take to the legislature. She said that her customers are concerned about cost, and that she can’t make a decision and sign-on on behalf of Associated Oregon Industries without knowing the economic impacts.

Chair Stewart-Smith clarified that the objective is not to come to complete consensus, but to do so to the extent possible. He noted that the group may come out of the process with one minority and one majority report, and that would be acceptable, though he does not want to offer too many different options. Virinder Singh, on behalf of Bill Edmonds of PacifiCorp, requested assurance that this will not be marketed as a consensus plan. Chair Stewart-Smith acknowledged Mr. Singh’s concern, stating that if the outcome were not a consensus, it would not be reported as such.

Mr. Sadler clarified that until certain policy decisions are made, there isn’t a way to determine the associated costs of the system. Tom O’Connor stated that it would be useful to walk through the paper staff provided, but that he was not prepared to make choices or answer the questions before fully understanding the issues. David Van’t Hof stated that staff must have direction to create a model, and until there is something to model, costs are difficult to estimate. Jason Eisdorfer suggested that structural decisions be made in one of two ways: either read through the paper; take discussions to the group, close that gap; and model it; or, send the Straw Sub-Group back to make the decisions and have it return with a framework to run numbers and move forward to eliminate this same discussion in the future. Stephen Grover suggested that the sub-group come back with six scenarios.

Jim Lobdell stated that, due to the complexity of the issues, he was not ready to make decisions. He said he would like to see framework, a “stick-figure,” that can be dissected later and reassembled several times, if necessary, to assist in coming to agreement. He suggested that the Task Force decide on “placeholders” as it discussed topics. Those placeholders would not be binding decisions; members could revisit them later.

Mr. Singh said that, after the last meeting, he was unclear what the plan was for moving forward. Chair Stewart-Smith reminded him that at the last meeting the discussion was to figure out what the issues are.

### **Baselines**

Mr. Sadler noted that a baseline is needed to determine the number of allowances distributed to Load Serving Entities (LSE's). If implementation is assumed in 2009 data would be available through 2007, and then a choice could be made as to which year(s) accurately reflects a base period. He then asked what the most equitable way is to choose a base year or years. Chair Stewart-Smith mentioned that picking a specific year could prove to be problematic. Jim Lobdell agreed and noted that history may not depict the future. Chair Stewart-Smith suggested that picking an average of several years seemed reasonable.

Phil Carver stated that for the next legislative session data would be available through 2005. He noted that there might be a preference to choosing a base year with known data. Mike Burnett suggested a 5-year data stream that could disregard the highest and lowest years and use an average of the remaining three years. If known data are used, Dr. Carver asked whether the baseline would be the same across the board. A member suggested that the baseline selected should not require a large shift of money from one LSE to another and that an LSE would need the ability to make adjustments. After further discussion, The Task Force decided to use 2003 and 2004 as a placeholder for the baseline period and to add 2005 data when they become available.

Assuming the placeholder baseline period, the next placeholder decision to be made is whether historical emissions, historical MWh, or a combination of both, would be the data used as a basis for the initial baseline. Creating this placeholder offers a way to see how the free allowances would be distributed.

Mr. Duncan stated that the system should not begin with cost shifts or windfalls. He went on to suggest that allocation not be based on MWh, but rather on emissions, which would put everyone on the same page. Mr. Burnett agreed, stating that using emissions as a basis doesn't create winners and losers from the onset, and that it does not penalize for past behavior. Discussions continued and Chair Stewart-Smith concluded that staff should start using 100% emissions as the basis, and that adjustments can be made in the future. Staff should also continue to use a 95 percent-emissions and 5 percent-MWh case for analysis as well.

Due to limited time, Mr. Sadler delayed discussion of the adjustment issues in the paper until the next meeting and instead moved on to the last issue for a placeholder decision, which was determining the distribution of allowances.

## **Auctions**

Mr. Sadler introduced the topic of allowance auctions. Issues considered include: determining the percentage of allowances to be distributed for free (“grandfathering”) or via auction; whether the percentages will change over time; and whether auctions are necessary to create a minimum amount of trading for price discovery.

Ms. Brandis was concerned about the auctions, stating that ratepayers could potentially be buying allowances they do not need and are not aware of if there is not a system of banking. Mr. Sadler responded by saying that banking is an option that the Task Force will be considering. Mr. Duncan argued that managed banking becomes a source of flexibility and added savings. Dr. Grover proposed staff develop a scenario looking at auctions on different levels.

Chair Stewart-Smith then discussed whether sub-groups needed to be set-up to move forward and Mr. Carver explained what he needed in advice from such groups. It was decided that staff would take the placeholder decisions made at the meeting and reflect them in the rough base emission tables as it revised them over time.

It was decided that the next meeting would be in Portland on Thursday, January 12, from 9:00 AM until 1:00 PM.

Chair Stewart-Smith adjourned the meeting at 1:15 PM.