



Oregon

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Date: March 14, 2006
To: Carbon Allocation Task Force
From: Matthew Tidwell
RE: Implications of Allocations Based on Load

The task force has two placeholders for allocating free allowances:

- a. The state would allocate free allowances based on the load serving entities' (LSEs) historical CO₂ emissions; or
- b. The state would allocate 95 percent of the free allowances based on historical CO₂ emissions and 5 percent based on the LSEs' historical loads.

Staff had originally incorporated option (b) in its straw proposal. However, more detailed analysis of the impacts of the free distribution of the allowances based partially on load has revealed several problems. Perhaps the most troublesome is the fact that the COUs could actually increase their emissions throughout the cap-and-trade program and yet comply at the end of each compliance period. This discussion assumes a three-year compliance period, as in the straw proposal. It also assumes a cap based on historical emissions and loads for 2003 and 2004, as in the placeholder.

At the end of Compliance Period 1 (2009-2011), the COUs' combined emissions could go from a 3-year total of 1,720,000 tonnes of CO₂ (MTCO₂)—an annual average of 570,000—to 2,490,000 MTCO₂—an annual average of 830,000—because they would be given a total of 780,000 allowances (an annual average of 259,000) in excess. Note: the 570,000 figure is the average of COU CO₂ emissions for 2003 and 2004.

At the end of Compliance Period 2 (2012-2014), COUs would be able to comply if they reduced their 3-year emissions total to 2,440,000 MTCO₂, which is the total number of allowances that would be distributed to them freely if allocations were based 5 percent on load.

At the end of Compliance Period 3 (2015-2017), COUs would be able to comply if they reduced their 3-year emissions total to 2,260,000 MTCO₂, which is the total number of allowances that would be distributed to them freely.

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At the end of Compliance Period 4 (2018-2020), COUs would be able to comply if they reduced their 3-year emissions total to 2,080,000 MTCO₂, which is the total number of allowances that would be distributed to them freely.

Thus, from 2009 to 2020, the COUs could actually increase their annual emissions from an average of 570,000 MTCO₂ during Compliance Period 1 to an average of 690,000 MTCO₂ for Compliance Period 4, and yet comply at the end of each Compliance Period.

Staff recommends that the task force reconsider whether to keep a placeholder for distributing some of the free allowances based on load.