

## Carbon Allocation Task Force

at the Energy Trust of Oregon  
851 SW Sixth St. Suite 1200  
Portland, OR 97204  
November 10, 2005, 10:00am

### Task Force

David Stewart-Smith, Chair

Gary Bauer, Jeremiah Baumann, Julie Brandis, Mike Burnett, Angus Duncan, Peggy Duxbury, James Edelson, Jason Eisdorfer, Steve Grover, Margie Harris, Jim Lobdell, Jim Maloney, Tom O'Connor, Michael Siebers, Bob Therkelsen

### Ex Officio

Michael Grainey, John Savage, David Van't Hof

### Technical Consultants

Hal Nelson

### Staff

Phil Carver, Sam Sadler, Sisily Fleming, Bill Drumheller

Chair Stewart-Smith called the meeting to order at 10:10 am. Angus Duncan, Bonneville Environmental Foundation, distributed summary materials from the *Oregon Strategy for Greenhouse Gas Reductions* and Mike Burnett, The Climate Trust, distributed a letter regarding offsets.

Chair Stewart-Smith asked for comments on the agenda or for questions regarding the glossary. Julie Brandis, Associated Oregon Industries, asked whether the terms in the glossary are consistent across the board. Phil Carver and Sam Sadler explained that these terms and definitions were based on other documents and should be familiar. Peggy Duxbury, Calpine, referred to the baseline definition, and expressed concern of the lack of language to address updating. Mr. Sadler agreed to add the concept of updating.

Chair Stewart-Smith began the discussion of the staff's "Short Straw Proposal." He stated that this proposal was meant to give a sense of what a comprehensive plan looks like and to assist in understanding the complexity of the issue, but it is not a recommendation of a final scheme.

Mr. Sadler explained that the "Short Straw Proposal" was put together by staff and reviewed by sub-group, but was not endorsed by sub-group. The intent of the proposal was to show one way meet the goal set by the Governor by setting limits on CO<sub>2</sub> emissions based on the use of electricity, known as a "load-based" carbon allocation standard. Jim Lobdell, PGE, questioned why the proposal only looked at "load-based" and not "generation-based." Mr. Sadler explained that "generation-based" would not capture emissions caused by the use of electricity or from imports out of state. Mr. Sadler explained that "generation-based" would only cover one-third of Oregon's

emissions. Mr. Carver reminded the group that Rich Cowart, The Regulatory Assistance Project, explained the difference between “load-based” and “generation-based” during his presentation at the September meeting.

Mr. Sadler explained that the state would set an initial cap, based on the average of CO<sub>2</sub> emissions from electricity use for the years of 2001-2005, which would probably be around 25 to 30 million metric tons (MMT) of CO<sub>2</sub> emissions. This limit would decline over time. It would be about 19 MMTs by 2020 and about 5 MMT by 2050.

The state would limit the CO<sub>2</sub> emissions that an LSE could emit by computing the load (megawatt hours (MWh)) times the carbon mix of the electricity supplying that load to determine the tons of CO<sub>2</sub> emissions. The initial limit for an LSE would be determined by a formula accounting for CO<sub>2</sub> emissions and MWh for the historical period.

The state would then issue two types of serialized allowances, free and auctioned, each representing one metric ton of CO<sub>2</sub>. Each year 95 percent of the total allowances would be issued to the LSEs for free, and the state would auction off the remaining 5 percent, with proceeds from the auction going to the Energy Trust of Oregon or a similar organization. Of the free allowances, 95 percent would be distributed based on CO<sub>2</sub> emissions and 5 percent based on load. This would give those LSEs with very low emissions some allowances.

Jim Maloney expressed concern regarding the 95 percent free allocation and questioned whether allocating 100 percent creates difficulty in creating the market, or whether having an auction creates a market-clearing price. Mr. Lobdell reflected that if 100 percent of allowances were allocated and after 4 years an LSE has used them and then needed more allowances, yet nobody was selling, it would have no options. He raised the issue of needing fossil-fueled back-up for wind. Mr. Duncan stated that the intent of the 5 percent auction of allowances is to allow flexibility. He suggested that this issue be flagged, as the intent is not to make it more expensive for renewable energy.

Mr. Carver explained the Compliance Proposal chart he had passed out at the meeting. Each year, likely in the early spring, the LSE would get a report on the previous years emissions and its allocated (free) allowances. After a three-year period each LSE would retire its free allowances, any allowances purchased at auction or from another LSE, and any offsets to cover its total emissions. If the combined total of these allowances and offsets were greater than the emissions, the additional allowances would be carried over to the next three-year period. If the combined total were less than the emissions, the LSE would be required to pay a fee of \$40 per ton of excess CO<sub>2</sub> emissions.

Mr. Carver went on to explain “Net System Mix” and was questioned as to whether there was a policy reason for using “Net System Mix.” He explained that it was an analytical reason and is calculated from historical data. Mr. Duncan inquired about how the Net System Mix calculation interacts with the other aspects. He expressed concern that suppliers might game the system by moving resources around. He questioned whether a Net System Mix could reduce this potential gaming. Mr. Carver explained that

retail labeling laws would help and that there may be ways of re-contracting. There was a discussion of whether an “Average System Mix” should be considered. It was decided that a sub-committee could take on the issue. Mr. Carver stated that a “Net System Mix” could get more carbon intense over time, and John Savage noted that the issue might shrink over time, as more utilities own their resources. Jeremiah Baumann stated that accounting for emissions is not 100 percent accurate.

A question was raised regarding those LSEs that have purchased power from Oregon energy facilities that have provided offsets in order to meet the carbon dioxide standard, and how it works with allowances. Mr. Sadler noted that two issues are being raised. One related to offsets in general and one related to the Oregon CO<sub>2</sub> standard. When a site certificate holder provides funding to The Climate Trust, the certificate holder has not “purchased” the offsets. The Climate Trust owns the offsets, not the certificate holder. The proposal is to work with The Climate Trust in order to credit a plant with actual offsets that The Climate Trust received during a specific year when computing the mix for an LSE that purchases power from a plant that had met the Oregon CO<sub>2</sub> standard.

For the most part, offsets allowed in a cap-and-trade system will not be associated with an Oregon plant that had met the Oregon CO<sub>2</sub> standard. Mr. Sadler stated that eligible offsets would have to be clearly identified, whether project based offsets or performance-based criteria.

It was stated that the straw proposal looks okay over the long term, but seems to present issues in the short term. Other issues raised included: resource adequacy, advance calculation of emissions, trading, base line adjustments, set asides, incentive values, and movement of loads.

Mr. Carver stated that trading is a natural function, and that there could be “off ramps” or “circuit-breakers” for the \$40 fee assessed to excess emissions, if forecasts are off, to freeze the decline of the overall cap.

Mr. Burnett encouraged the group to read the letter he provided at the beginning of the meeting, as it includes a debate on offsets, and discusses cost effectiveness. He also stated that the Task Force could make a mistake if it doesn’t allow offsets from within state and all of the money goes out of state. Margie Harris, Energy Trust of Oregon, questioned money going out of state. Mr. Sadler explained that the problem with allowing in-state offsets is in giving something of value (a right to sell offsets by an emitter) and then taking it away later by imposing a cap. It creates an entitlement issue because it creates stakeholders who have something of value that they will later lose. It will also be hard to “sunset” offsets once a stakeholder has obtained value from them. The goal is to reduce CO<sub>2</sub> for the state overall eventually, so strategically it is not a good idea to create stakeholders that will be under a cap later.

Mr. Sadler stated that the Renewable Energy Working Group, which Bill Drumheller of ODOE is staffing, is looking at a Renewable Portfolio Standard (RPS). Michael Grainey clarified that the Renewable Energy Working Group is an oversight group to implement

the Renewable Energy Action Plan. There was a discussion of whether the RPS has been charged to this other group, and Chair Stewart-Smith explained that both groups will look at the RPS. Because the Carbon Allocation Task Force already has plenty of issues to get through, it makes sense to have a special group also take a look at the design of an RPS. David Van't Hof stated that the Governor is expecting that some RPS will come out of this process, but how the RPS is implemented will depend on both groups. Mr. Duncan stated that the original Governor's Advisory Group on Global Warming thought of the RPS as a means to the Carbon Cap. It was then questioned whether it was an option to not come out of the process with an RPS. Mr. Van't Hof stated that while the Governor expected the Task Force to consider an RPS, there was no requirement.

There was then a discussion regarding the RPS. If the RPS is the intended outcome it was stated that the group should be trying to incorporate it now. Mr. Baumann stated that he understood the charge as cap-and-trade and a possible RPS. He stated that there are other tools and questioned the extent to which this group is limited in using those tools. Mr. Duncan responded that he hoped the group is not limited in using other tools to meet the objective, going on to say that an RPS is potential but does not speak to efficiency or offsets. Mr. Burnett suggested the group look at what is inconsistent with an RPS and what this group is attempting to accomplish. Chair Stewart-Smith stated that the Task Force would wait for the other group to take a look at it, and then the Task Force would take a look at it to determine whether it is acceptable.

Following lunch, Chair Stewart-Smith suggested that the group pick a few issues from the list provided, preferably the easier issues, to get some success going, stating that it will help the group to become familiar with group discussions of this nature. He also suggested the issues be ranked in order of complexity and that a schedule is determined to address them in the future.

A discussion began regarding the list of issues. Several people raised issues they believed needed to be included, such as the pooling concept for small utilities, how to deal with increases or reductions of load, how auction dollars would be used.

Virinder Singh stated that he was concerned with how the carbon allocation standard would fit under the Multi-State Protocol of the six Public Utility Commissions that regulate PacifiCorp. He did not see how cost recovery could be aligned with the proposal. He suggested a sub group to tackle the issue.

Chair Stewart-Smith suggested that sub-group and staff come up with an additional list of issues to be discussed at future meetings based on the discussions that had taken place and to move forward with a few from the current list of issues to discuss at policy levels. He suggested staff group issues under sets, and come up with steps to build future discussions. There was a discussion about getting all members on the same page, because it seemed that not everyone was prepared to discuss the straw proposal.

A discussion began regarding an economic model. Sam Sadler stated that they are attempting to obtain funding for a macro-economic model, adding that you can't model a

system when you don't have a system to model. Phil Carver explained that if we do not know how a cap-and-trade system is designed, we cannot model it. He stated that figuring out how LSE emissions are counted should come first and then go from there, as units of the system must be understood. It was decided that staff should come up with a modeling plan paper identifying questions that must be addressed in order for the process to begin.

Jim Lobdell suggested that the Task Force determine a list of principles, measure assumptions to benchmark against principles. Chair Stewart-Smith stated that principles were adopted as given, and Mr. Duncan summarized them. Bob Therkelsen suggested creating a Carbon Reduction Curve. Mr. Carver stated that it would be possible to estimate such a curve through 2010. Mr. Duncan recommended that the group agree on a provisional baseline and delegate to staff the responsibility of the Carbon Reduction Curve encompassing a 2020 timeline. Mr. Carver clarified that the sub-group was charged to look at calculation of curves and an emission tracking mechanism.

Chair Stewart-Smith asked the group to start figuring out steps of building blocks to provide a structure for future meetings and discussions. Mr. Duncan suggested starting with equity issues, selecting a baseline, load switching and fuel substitution, and carving out large issues to be set aside, with the idea that three or four issues will be covered in a day to help the group get their arms around.

Two subcommittees were set. The emissions accounting subcommittee consists of Jim Lobdell, Virinder Singh, Jim Maloney, and Tom O'Connor. The baseline and allowance distribution subcommittee consists of Peggy Duxbury, Julie Brandis, Stephen Grover, Tom O'Connor, and Jeremiah Baumann. Subcommittees were charged with determining concepts, recommendations, definitions, and told that it would be helpful to have a decision memo.

The Task Force agreed the December meeting would be in Portland in the morning.

Chair Stewart-Smith adjourned the meeting at 3:10 PM.