

Climate Stability and Justice Act of Oregon ([HB3470-A](#)) Questions and Answers:

(PI-5.31.15; blue text links to evidence; request electronic version at info@policyinteractive.org)

Why is HB3470 necessary? Oregon is not meeting its goals to reduce greenhouse gas emissions because the [existing 2007 law](#) was a goal without effective enforcement mechanism. That law intended Oregon to reduce statewide greenhouse gas emissions to be 10% below 1990 emission levels by 2020 and at least 75% below 1990 levels by 2050. Those goals were based on studies by the International Panel on Climate Change, comprising 3000+ qualified climate scientists. Without controlling greenhouse gas emissions, the scientific consensus predicts catastrophic worldwide consequences. While early signs are observed, the big risk is reaching climate tipping points causing intense global temperature rise. HB3470 defines a comprehensive strategy. Below is a short summation of how key components may be implemented.

How does HB3470 accomplish the objectives? HB3470 mandates a cap on Oregon's greenhouse gas emissions with two to three percent annual reduction. The law requires Oregon's Department of Environmental Quality to adopt rules and timelines to meet the cap with periodic legislative supervision. It stipulates that Oregon work with other states and jurisdictions to increase effectiveness at lower cost through economies of scale and shared implementation when practical. It authorizes a market-based mechanism observed to be successful elsewhere. Multi-state implementation would logically be through the [Western Climate Initiative](#) (WCI), to which Oregon already belongs along with Washington, Utah, New Mexico, California and Arizona in the US and British Columbia, Manitoba, Ontario and Quebec in Canada. Three of the members have adopted a cap and trade approach involving a market mechanism which is self-supporting and yields revenue for investments to transition us to a low emission future.

HB3470 is intentionally a performance based policy rather than a legislative prescription policy. HB3470 actualizes the 2007 aspirational goals into mandatory law. Functionality and implementation is assigned to the agency. It must be emphasized that the agency operates under rules adopted by the Environmental Quality Commission, a citizen based commission appointed by the Governor. HB3470 assigns implementation details through a process of agency research, public hearings, legislative oversight and commission rule making. To respond to public requests for how the policy would probably work, the following is based on the three current jurisdictions using the WCI cap and trade mechanism, anticipating that the agency would follow a similar approach.

What would Oregon's involvement in a market mechanism such as cap and allocation look like? One approach could be to assign allowances where one allowance is a permit to pollute. One allowance (unit) authorizes the holder to emit one ton of CO₂e gas. The allowances are purchased in a quarterly open market auction. As in a standard auction, a minimum value is set for an allocation to insure tangible value, such as \$12 per ton of CO₂e. It is observed that a very large share of emissions come from few companies, namely those with above 25,000 metric tons carbon dioxide equivalency per year (CO₂e). Tackling reduction at this scale, it is estimated that fifty businesses would be in the market mechanism, covering about 85% of statewide emissions. This approach involves major fossil fuel users like larger utilities and industries and fuel distributors but not local gas stations, small businesses such as farms, nor individual consumers.

How does the allowance auction work? WCI, mentioned above, operates the non-profit [WCI Inc.](#) auction market program, saving states the costs of running individual programs. Under the rules of the cap-and-trade program, every regulated facility must acquire at auction and surrender allowances equal to their emissions. So Portland's General Electric coal generating station, for example, would need to turn in 4 million allowances to cover 4 million tons of CO₂ equivalent annual greenhouse gas emissions. The total number of allowances available in the program in any year is exactly equal to the cap for that year. As the cap declines, so too does the number of allowances. As allowances become scarcer, their value will tend to increase--creating an incentive for businesses to reduce emissions in the most cost-effective manner. Most auction proceeds are turned over to the state and invested in lowering greenhouse gas emissions, such as conservation, renewable energy and research or offsetting the burden for low-income earners. This builds a low emission economy while creating jobs in clean technology. Businesses that reduce energy can sell and pocket their surplus allowance proceeds, incentivizing conservation.

How much would the state earn and what does it do with the auction income? Current experience from other states shows the bid price to be stable and currently at about \$12 per ton of emitted greenhouse gas, about 2% the cost of energy. If this approach were applied in Oregon today it is estimated that it would yield about \$250 million per year. Administration of the program is estimated at one half percent and thus would be self-supporting from program auction revenue. The mechanism is essentially a hybrid regulatory and free market mechanism which stimulates business to find least cost ways to reduce emissions. The auction costs encourage business efficiencies but also yield funds for public discretionary investments toward a low emission future, like renewable energy, conservation and research. Other jurisdictions report these investments leverage job growth in clean industries at 2 to 3 times the national average.

I'm worried that this whole thing is a scam — how can we be sure this won't turn into another Enron boondoggle? Enron was a for-profit corporation dedicated to maximizing profit. HB3470 is a regulatory mechanism dedicated to lowering emissions. WCI, Inc. has put a number of safeguards in place to deter and detect any attempts to manipulate the market. Every market participant must register with the agency and submit to Oregon's jurisdictional regulation. Every transaction in the market is tracked in a central database (each allowance contains a unique serial number). Hoarding rules and purchase limits prevent any one actor from cornering the market. The agency will employ an independent third party monitor with extensive experience monitoring energy markets which are similar to carbon markets, especially in terms of analyzing the bids and activities of participants. HB3470 explicitly specifies language to prevent loopholes and sleight-of-hand.

I've heard talk about a carbon tax as a different way to go. What's the difference between a carbon tax and a cap-and-trade program? A carbon tax is a straight tax on fossil fuels, with the idea that polluters will pay an incentive to reduce emissions. But a carbon tax does not actually guarantee greenhouse gas reductions; the tax could be passed onto consumers, and the incentive hinges on the level of the tax. Public opinion evidence shows that the public isn't supportive of the level of tax necessary to lower greenhouse gasses effectively. Additionally, Oregon has major constitutional impediments to carbon taxation for uses other than highway construction, preventing transitional low emission investments with a carbon tax. A carbon tax also fails to address the full range of other greenhouse gasses (e.g. methane and oxides of nitrogen), estimated to be causing more than 20% of global warming.

Successful cap-and-trade programs, in contrast, specifically require greenhouse gasses to go down over time, because there is an actual declining cap set on those emissions. This type of program does not stipulate a price on emission, but allows the market to determine the price through the trading system. Companies that reduce emissions can sell or trade unused allowances to companies that exceed theirs. Over time the total cap decreases, making allowances scarcer and providing an incentive to find cost-effective ways to cut emissions. This approach is working successfully in ten states to lower emissions. Current Oregon [voter polling](#) opinion shows strong majority support for regulating carbon emissions in the manner of HB3470.

What about low income people who don't have flexibility to adjust to changes? HB3470 strives for equity through appointment of an environment justice committee to advise agency implementation to avoid disproportionate impact to low income communities.

If Oregon emits only a quarter of a percent of the world's emissions, why should we do anything at all? Emissions are a worldwide collective action problem. Without leaders to address a challenge, no solutions are ever possible. By joining the Western Climate Initiative group, Oregon enters a solution representing the fifth largest economy in the world on its own as well as encouraging our nation and other countries to take greater action to regulate emissions to stabilize global warming. Failure of federal leadership necessitates that states take responsibility. HB3470 proponents think Oregonians should take the moral high ground in addressing this paramount global problem.

By assigning agency responsibility to meet the goals, authorizing new implementation tools, and agency course-correction for unforeseen circumstances or discoveries, the Act implements the 2007 goals. It achieves emission reductions incrementally in a self-supporting way and stimulates the market to find the best methods at least cost. Three WCI members using the market based mechanism, California, Quebec and Ontario, report effective emission reductions as well as job growth above their national averages.

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