

HB 2020 CAP AND TRADE COMMENTS

February 22nd, 2018

Thank you for the opportunity to submit comments on HB 2020, as introduced to the 80th Oregon Legislative Assembly. Oregon has an unprecedented opportunity to lead the State into the future energy economy with this important legislation. The following comments were written with environmental outcomes (e.g. greenhouse gas emissions reductions) as the primary objective and good market functioning and a smooth transition as the secondary objective.

Significant environmental integrity concerns:

1. **Section 21.(c) SIGNIFICANT ENVIRONMENTAL INTEGRITY AND MARKET FUNCTIONING PROBLEM-** If the price ceiling is exceeded this language blows the cap by allowing unlimited allowances to be released by the regulator and then doesn't provide any way to reinstate it. This will flood the market with allowances that will then be permanently in the system, even if the price increase was caused by a fluke (e.g. a short term natural disaster, supply shortage or disruption or something else unanticipated). The following language, or something similar, should be used instead: "adopt rules for releasing allowances in tranches of [xx] until the price returns below the ceiling price". The way this is written now the cap will be exceeded and there is no way to get it back on track once the market has been flooded with allowances; which means the statutorily imposed GHG reductions will not be met and the environmental objectives of the program will not be met.
2. **Section 9 (4)(b): COULD BE SIGNIFICANT PROBLEM-** the GHG impact or benefit of a MWh of power generated from a RE source is generally sold with the REC. Once the REC has been stripped off and sold the purchaser of the REC has the rights to claim the GHG and other environmental attributes of that MWh of power. To avoid double counting and protect the environmental integrity of the program (and to push your regulated entities to actually decarbonize) a MWh of power that has sold off the REC should be assigned whatever the average underlying GHG mix of the grid is per EPA or utility calculations for that area once the emission reductions program is in place.

General comments/suggestions:

- **Consider building in a baseline and cap adjustment mechanism(s):** the EU ETS has spent the last several years trying to fix this problem because they had bad data at the beginning of the program and set the cap way too high (and also didn't anticipate the 2009 global crash). Macroeconomics do impact emissions and regulators need to be able to respond in real time to those changes. One way to address this could be to build a science-based and policy review every three to five years of the cap and grant a decision-making body authority to make changes within a certain percentage up or down depending on what is happening. Another option for policy design is one that

includes a robust price floor and a rule that retires any allowances that go unsold at the floor price (say for two quarterly auctions), tightening the cap. The regulator should also have the authority to remove/cancel and or retire surplus allowances from the system or to place them in a reserve and auction them on behalf of the public good and use the proceeds for various public benefit programs if they aren't drawn on for a period of time. Additional checks and balances should also be put into place on GHG inventories for regulated entities to ensure their accuracy. If the early data OR has been collecting on GHG's to date is not accurate, baselines are likely to be inflated because all regulated entities have an incentive to inflate them, particularly if they're getting free allocations of allowances.

- **Go after high global warming potential (HGWP) gases:** Regulating and reducing high global warming potential gases is one of the most impactful things we can do to slow down global warming and its attendant climate change. Exempting HGWP gases in the semiconductor and EITel sectors is leaving lots of low hanging fruit unharvested across the state. There are a few ways to engage this sector earlier, ranked in order of environmental impact:
 - Automatically put them into the cap in 2025, and then have the study so that legislators can pull them out if they need to.
 - Rather than flat out exempting them from coverage, take a playbook out of the Montreal Protocol and Kigali Amendment and offer to provide funding and incentives to get them to swap out the worst of the high GWP gases they use.
 - At a minimum, move the study up to 2022 as that gives folks four whole years to study covering the industry.
- **Capped sector reduction allowance allocation:** One way to drive emission reduction activities in capped sectors would be to include a means to directly allocate (or allocate into a reserve a la the voluntary RE generation reserve) allowances to entities in the territories of the utilities (e.g. municipalities, industry, etc.) who are directly pursuing emission reduction activities that have measureable and quantifiable GHG reduction impact (e.g. EE, RE, etc.). These could be allocated to an entity like the Energy Trust of Oregon in proportion to the ERs they verify and deliver through their programs. They could then sell the allowances to fund further work in their sector and end run the utilities who are working hard to stomp out local action and efforts.
- **Avoiding Electric Sector Allocation gaming:** 15(1) Consider adding a clause to Sec 15 to ensure that total allocation to electric sector doesn't exceed some metric (prior year allocation, for example) to avoid gaming in IRPs.
- **Section 21(6):** 21(6) consider adding "prices necessary to ensure a stable environment for continued investment in cleaner technologies"

Section 8: Definitions

3. (4) CO2 equivalents: should be pegged to best available science as determined by the IPCC and updated as new science becomes available.
4. Should consider clarifying that "benefit of ratepayers" includes energy efficiency and (possibly) beneficial electrification.
5. Should more clearly define "fuel" – does this include bunker fuels, petcoke, etc?

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Alexia Kelly is the Founder and CEO of Electric Capital Management (ECM). ECM specializes in designing, managing and executing the next generation of solutions to mitigate and adapt to climate change across the globe. Through targeted advisory services, ECM works at the intersection of policy and finance to accelerate the transition to the clean energy economy for government, philanthropy, corporations and family offices.

Prior to founding Electric Capital Management in 2017, Alexia was a partner at Allotrope Partners, a boutique private equity investment company, where she designed and led the firm's work on public private partnerships and blended capital structuring for low carbon infrastructure and asset development in emerging markets. Before joining Allotrope, Alexia served as a Senior Climate Change Advisor and Foreign Service Officer with the U.S. Department of State. In this role, she directed the State Department's initiative on low emissions development (LEDS) across 25+ countries, 10 federal agencies, and more than \$800 million in climate change mitigation funding on behalf of the Special Envoy for Climate Change. She also served as the lead U.S. negotiator on emissions trading to the United Nations Framework Convention on Climate Change (UNFCCC) and represented the U.S. to multiple World Bank funds.

Alexia has also held roles at the David and Lucile Packard Foundation, the World Resources Institute (WRI), and The Climate Trust. Alexia holds a B.A. in Planning, Public Policy and Management, a Master of Community and Regional Planning and a Master of Public Administration, from the University of Oregon.