

Comparison of EITE Allowance Allocation in HB 2020 and -31 Amendment

	HB 2020 (introduced)	HB 2020 – 31 Amendment
Designation of EITE Status	-Specific 6-digit NAICS Codes in statute	-NAICS codes aligned to Vivid Economics Study to better reflect EITE status of Oregon manufacturers. The CPO may add additional industries if they are found to be similarly at risk of leakage to these pre-established EITE industries. -Additional study of facilities with 10-25,000 mtCO ₂ e annually for EITE status and allow them to potentially opt into the program to receive direct allocation of allowances as EITEs.
Protection against Leakage	-Provides significant allowance allocation but cap decline may reduce leakage protection in later years of program.	-Tailored more directly to a facility's ability to reduce emissions in the near and long term, given use of the best available technologies, processes, and equipment.
Decline in Allowance Allocation	-Year 1: 100 percent of recent average emissions per unit of output -Subsequent years: Allowance allocation reduced annually at the same rate as the overall program cap.	-Year 1-3: 95 percent of recent average emissions per unit of output -Subsequent years: No decline in allocation for cap decline; instead based on an update of a benchmark every 6 years.
Basis for Allocation (emissions efficiency benchmark)	-Based on average emissions intensity in the most recent three years prior to the start of program. The benchmark is set at the program's start and held constant for remainder of Climate Action Program.	-The benchmark is set based on the best available technology, processes, and equipment that is commercially available, economically viable, and technically feasible to manufacture the product at each facility. -The benchmark is informed by a facility-specific emissions audit conducted by an independent auditor, and by comparable benchmarks and production data from other jurisdictions and facilities when available and relevant. The benchmark is updated every 6 years.
Consideration of Local Factors and Facility-Specific Challenges	-Considers facility specific issues through the initial benchmark and through adjustments of allowance allocation for specific facility-specific circumstances.	-Considers facility, specific goods manufactured, and local conditions in implementing the best available technology, equipment, and processes for manufacturing. Adjustments for changes in specific circumstances are also permitted.
Output based allocation of allowances	-Yes, based on product output updated annually.	-Yes, based on product output updated annually.

Explaining the Best Available Technology Benchmark

Under the approach outlined in HB 2020-31, a manufacturer would receive 95 percent of the allowances needed to cover the emissions produced if manufacturing using the best available technology, processes, and equipment, adjusted for

local factors and viability of implementing the technology. This means that a company that adopts the “best available technology” and is manufacturing at the emissions efficiency set by the benchmark would receive 95% of their allowances for at least 9 years (2021-2023, 20024-2029). Their allocation would only change if the benchmark is revised lower in 2029 based on changes in available technology, equipment, and processes.

Companies that manufacture at greater emissions intensity than benchmark would need to acquire some combination of offsets and allowances to cover the emissions they produce *above* the best available technology benchmark.

Example Scenarios

Example 1 – Company manufacturing using the most efficient equipment and processes possible: Assume Company A produced 100 units in recent years and will continue to produce this amount into the future. Its recent historic emissions intensity = 5 tons CO₂e/unit. Total annual emissions Company A = 500.

Under HB 2020 Introduced: Company A’s benchmark is based on its recent historic emissions intensity of 5 tons CO₂e/unit. Company A gets 100% of the benchmark in year one, so it receives 500 allowances for the 100 units it produces that year, which amount to all that it needs to comply with the program. The amount of allowances per unit declines each year with the rate of decline of the cap. So, if the cap declines 3% in 2022, Company A will receive .97 allowances/unit that year. If the cap declines by another 3% in 2023, Company A will receive about .94 allowances/unit that year.

Under HB 2020-31: Company A’s benchmark is 5 tons CO₂e/unit for 2021-2023. Company A gets 4.75 allowances per unit (0.95*5) in 2021-2023. This is equal to 475 allowances/year. An audit is done of Company A’s facility to identify the emissions intensity if the facility adopted the “best available technology.” That audit, along with research into emissions efficiency of production in other jurisdictions and facilities in the industry, informs the creation of a facility specific benchmark that goes into effect in 2024. Suppose the benchmark is determined to be 5 tons CO₂e/unit. This means Company A will get 95%* (5 tons CO₂e/unit)*100 units = 475 allowances starting in 2024. The benchmark stays constant for six years 2024-2029, and is then re-evaluated to determine whether better equipment or processes are commercially available, economically viable, and technically feasible. In this scenario, Company A is receiving nearly enough allowances as needed for compliance because they are operating as efficiently as possible.

Example 2 – Company manufacturing less efficiently than best available technology: Assume Company B produced 100 units in recent years and will continue to produce this amount into the future. Its recent historic emissions intensity = 6 tons CO₂e/unit. Total annual emissions Company A = 600.

Under HB 2020 Introduced: Company B’s initial benchmark is based on its recent historic emissions intensity of 6 tons CO₂e/unit. Company B gets 100% of the benchmark in year one, so it receives 600 allowances for the 100 units it produces that year, which amount to all that it needs to comply with the program. The amount of allowances per unit declines each year with the rate of decline of the cap. So, if the cap declines 3% in 2022, Company A will receive .97 allowances/unit that year. If the cap declines by another 3% in 2023, Company A will receive about .94 allowances/unit that year.

Under HB 2020-31: Company B’s benchmark is 6 tons CO₂e/unit for 2021-2023. Company B gets 5.7 allowances per unit (0.95*6) in 2021-2023. This is equal to 570 allowances/year. An audit is done of Company B’s facility to identify the emissions intensity if the facility adopted the “best available technology.” That audit, along with research into emissions efficiency of production in other jurisdictions and facilities in the industry, informs the creation of a facility specific benchmark that goes into effect in 2024. Suppose the benchmark is determined to be 5 tons CO₂e/unit. This means Company B will get 95%* (5 tons CO₂e/unit)*100 units = 475 allowances starting in 2024. The benchmark stays constant for six years 2024-2029, and is then re-evaluated to determine whether better equipment or processes are commercially available, economically viable, and technically feasible. In this scenario, Company B is only allocated enough allowances to cover emissions from the best available technology, processes, and equipment, and must acquire some combination of offsets and allowances to cover the emissions they produce above the allocation based on the benchmark.