

HB 2020 A STAFF MEASURE SUMMARY**Joint Committee On Carbon Reduction****Action Date:** 05/17/19**Action:** Do pass with amendments and be referred to Ways and Means. (Printed A-Eng.)**House Vote****Yeas:** 4 - Helm, Lively, Marsh, Power**Nays:** 3 - Bonham, Boshart Davis, Smith DB**Senate Vote****Yeas:** 4 - Beyer, Dembrow, Golden, Taylor**Nays:** 2 - Bentz, Girod**Exc:** 1 - Olsen**Fiscal:** Fiscal impact issued**Revenue:** Revenue impact issued**Prepared By:** Beth Reiley, LPRO Analyst**Meeting Dates:** 2/8, 2/11, 2/15, 2/18, 2/22, 2/23, 2/25, 3/1, 3/2, 3/25, 3/29, 4/1, 4/5, 5/3, 5/6, 5/10, 5/13, 5/17**WHAT THE MEASURE DOES:**

Modifies state anthropogenic greenhouse gas (GHG) emissions reduction levels goals to: at least 45 percent below 1990 emission levels by 2035; and at least 80 percent below 1990 emission levels by 2050. Establishes the **Joint Committee on Climate Action** (Joint Committee) comprised of members appointed by President of Senate and Speaker of House. Establishes Joint Committee responsibilities. Establishes the **Climate Policy Office** (CPO) in the Department of Administrative Services (DAS). Establishes CPO authority and responsibility. Stipulates CPO under the supervision of a director appointed by the Governor and subject to Senate confirmation. Establishes the **Oregon Climate Board** (Board) to ensure correspondence among the CPO, public interest, and state climate policies. Establishes membership requirements for ex officio members and nine voting members, appointed by the Governor, subject to Senate confirmation. Establishes Board responsibilities. Declares the purpose of the regulatory and investment portion of the **Oregon Climate Action Program** (OCAP) is to: a) achieve emission level reductions; b) promote GHG emissions sequestration and mitigation; c) promote adaptation and resilience by natural and working lands, fish and wildlife resources, communities and the economy, state's infrastructure in the face of climate change and ocean acidification; and d) to provide assistance to households, businesses, and workers impacted by climate change or climate change policies that allow the state to achieve greenhouse gas (GHG) goals. Requires the CPO to adopt OCAP by rule in accordance with the Administrative Procedures Act. Requires OCAP to place a **cap** on the total regulated anthropogenic GHG emissions through setting allowance budgets starting in 2021 through 2050 and provide a **market-based mechanism** for covered entities to demonstrate compliance. Stipulates that the annual allowance budget for 2021 must be a number of **allowances** equal to **baseline emissions**. Requires allowances available each year to decline by constant amount as necessary during 2022 through 2035 and 2036 through 2050 to accomplish reduction levels. Establishes process for CPO to calculate baseline emissions attributable to covered entities. Requires CPO to designate specified **covered entities**. Requires CPO Director to adopt rules for the **market-based compliance mechanism**. Requires all covered or opt-in entities and general market participants to **register** to participate in the OCAP. Requires CPO to exempt from regulation a cogeneration facility owned or operated by a public university or Oregon Health and Science University. Requires CPO to exclude from regulation GHG emissions from the combustion of aviation, watercraft, or railroad locomotive fuel and emissions attributable to a landfill. Authorizes CPO to **exempt** anyone that imports a de minimis amount of gasoline and diesel fuel as determined by rule. Requires CPO to allocate a percentage of

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allowances for each annual allowance budget to be distributed into an **allowance price containment reserve**. Authorizes the CPO to allocate percentage to voluntary renewable energy generation reserve and requires CPO to adopt rules for allowance distribution that begin operations on or after January 1, 2021. Establishes process and requirements for CPO to allocate **allowances**. Establishes requirements for CPO to designate a covered or opt-in entity as an **emission-intensive, trade-exposed entity (EITE)**. Requires CPO to complete **study on leakage risk**. Establishes formula for the annual allocation of **allowances for direct distribution** at no cost to an EITE entity and specifies basis of annual benchmarked emissions calculations. Establishes conditions for offset projects. Restricts a covered entity use of **offset** credits to meet compliance obligation to no more than eight percent and to no more than four percent from projects that do not provide direct environmental benefit in Oregon. Authorizes CPO to adopt by rule additional restrictions on offset credits if air contamination source is in impacted community and other conditions are met. Establishes requirements on CPO in adopting offset protocols related to forestry and agriculture and conservation on natural and working lands, and on offset consultation and reporting. Requires CPO by rule, in consultation with Portland State University Population Research Center, Oregon Health Authority, and other relevant agencies and officials, to designate **impacted communities**. Requires CPO to hold **auction** at least annually and establishes process and requirements for such auctions, including setting auction floor price, allowance price containment reserve floor price, and hard ceiling price for 2021 and a schedule for prices to increase by fixed percentage each year. Establishes the **Auction Proceeds Distribution Fund** and distributes as follows: all money that constitutes revenues described in Article IX, section 3a, of the Oregon Constitution, must be transferred to the Transportation Decarbonization Investments Account; all money that constitutes revenues described in Article VIII, section 2 (1)(g), of the Oregon Constitution, must be transferred to the Common School Fund; an amount necessary to administer the OCAP program must be transferred to the Oregon Climate Action Program Operating Fund; and the remainder to the Climate Investments Fund. Prohibits **linking** with other jurisdiction unless the CPO notifies the Governor of intention to link and the Governor makes certain findings. Requires Governor to issue findings within 45 days of receiving notice and directs Governor to provide findings to Legislative Assembly. Requires Governor to consider advice of the Attorney General in making findings. Prohibits State of Oregon from entering into finalized linkage agreement unless CPO has first provided report on proposed linkage agreement to the Joint Committee that includes certain information. Establishes **Oregon Climate Action Program Operating Fund**. Establishes the **Transportation Decarbonization Investments Account** and uses. Establishes the **Climate Investments Fund** and uses. Establishes wage and labor preferences for use of funds. Establishes the **Just Transition Fund** and uses. Requires the Higher Education Coordinating Commission to establish a **Just Transition Program**. Requires no later than January 1 of each even-numbered year, CPO to deliver a **Climate Investments Funds biennial report** to the Governor and the Joint Committee and ODOT to deliver a Transportation Decarbonization Investments Account biennial report to the OTC, Governor, Joint Committee, and Joint Committee on Transportation. Requires CPO and ODOT to jointly select an independent third-party organization to prepare a **biennial audit** of all programs, projects, or activities funded by the Climate Investments Fund and the **Transportation Decarbonization Investments Account**. Directs the CPO to deliver **biennial climate action investment plan** no later than June 1 of each even-numbered year to the Environmental Justice Task Force (EJTF), the OTC, the Governor, the Joint Committee and the Joint Committee on Transportation. Establishes requirements for investment. Requires first investment plan no later than June 1, 2022. Establishes priorities for investment of moneys from Climate Investment Fund. Requires Governor to consider the climate action investment plan prepared by the CPO in preparing the Governor's budget. Requires the EJTF to review and develop recommendations in response to the biennial climate action investment plan and deliver a report on the EJTF's recommendations to the Governor and the Joint Committee no later than August 1 of each even-numbered year. Stipulates requirements on electric company that sells allowances that were directly distributed at no cost to the electric company. Requires the PUC, as trustee, to establish a separate trust account for the benefit of each natural gas utility for proceeds from the sale of allowances consigned to the state for auction by the natural gas utilities. Authorizes PUC to allow a rate or rate schedule of a public utility to include differential rates or to reflect

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amounts for programs that enable the public utility to assist low-income residential customers. Requires Oregon Housing and Community Services (OHCS) and State Department of Energy to jointly submit to the Governor and the Legislative Assembly a **biennial statewide energy burden report** no later than November 1 of each even-numbered year and establishes purposes of the report. Revises authority of the Environmental Quality Commission (EQC) to require registration and reporting of certain GHG emissions. Transfers the duties, functions, and powers of EQC and Department of Environmental Quality (DEQ) related to registration and reporting requirements for electricity and fuels (ORS 468A.280) to the CPO. Repeals Energy Facility Siting Council carbon dioxide emissions standards. Requires EQC to adopt by rule standards and requirements for reducing methane gas emissions from **landfills**. Exempts certain landfills. Abolishes the **Oregon Global Warming Commission**. Declares intent of the Legislative Assembly that provisions of Act relating to receipt of moneys through the sale of allowances by an auction do not render Act a bill for raising revenue. Authorizes any person who is interested in or affected or aggrieved by or who will be affected or aggrieved by the auctions section of Act to petition for judicial review; confers original jurisdiction on Supreme Court and establishes process for judicial review. Confers original jurisdiction to the Supreme Court to determine whether the auctions conducted under Act impose a tax subject to provisions of Article IX, section 3a of the constitution and authorizes any person who is interested in or affected or aggrieved by or who will be affected or aggrieved by auctions section of Act to petition for judicial review. Establishes process for judicial review. Requires **reports**: Initial implementation report, GHG emissions reporting program coordination report, offset implementation report, and report on certain exclusions from regulated emissions. Requires ODOT in consultation with the Department of Revenue, the Legislative Revenue Officer, and any other relevant state agencies, to develop a proposal for a **program or process for issuing refunds or credits** to offset estimated increases in motor vehicle fuel costs attributable to the regulation of motor vehicle fuel producers and importers. Outlines program or process parameters. Requires report be delivered to the Joint Committee and the Joint Committee on Transportation on or before September 15, 2019. Requires OHCS in consultation with the CPO, the Housing Stability Council, and interested stakeholders, to develop a **proposal for assisting households that use residential home heating fuels** that are not natural gas and provide report to the Joint Committee on or before September 15, 2020. Requires the Oregon Business Development Department (OBDD) to analyze and determine the **commercial needs in this state for loans or other financial assistance to commercial and industrial natural gas users or propane users** for projects or activities for specified purposes. Requires OBDD to develop a proposal for a program to serve the needs identified in the analysis in a manner that furthers one or more of the purposes of OCAP to be submitted to the Joint Committee on or before September 15, 2020. **Appropriates** \$_____ from the General Fund to the Oregon Department of Administrative Services for the biennium beginning July 1, 2019 for use by the CPO in the development and implementation of the OCAP. **Appropriates** \$250,000 from the General Fund to the Environmental Justice Task Force (EJTF) for the biennium beginning July 1, 2019 which may be used for compensation and expenses incurred by EJTF members who are not members of the Legislative Assembly and for provision by the Governor of clerical and administrative staff support to the EJTF. Establishes certain sections of Act become **operative** January 1, 2021. **Declares emergency, effective on passage.**

ISSUES DISCUSSED:

- Interim committee process
- Potential cost of cap-and-invest program to Oregonians
- Cost to Oregonians of not reducing greenhouse gas emissions
- Program revenue investments
- Interaction with transportation package
- Other governments that have adopted cap-and-trade programs
- Current and historical temperatures
- Actions individuals and industries have taken to reduce greenhouse gas emissions
- Other programs and policies
- Role of rulemaking in the program

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- Forest management and effects of forest fires

EFFECT OF AMENDMENT:

Replaces the measure.

BACKGROUND:

A cap-and-trade program is a market-based system designed to reduce greenhouse gas (GHG) emissions. Total allowed emissions are capped at a given level that decreases each year. Polluters are required to buy an allowance for each ton of greenhouse gas they emit above a specified amount, as quantified through mandatory reporting of emissions to the government. Allowances are purchased at auctions held either by the government or a contracted third party. Allowances may also be distributed for free, often to emissions-intensive, trade-exposed industries. Covered entities can also purchase offset credits to meet their compliance obligations. Offsets represent a verified emission reduction of one ton of carbon dioxide equivalent from an uncapped sector. At the end of each compliance period, polluters must remit a number of allowances equal to their emissions or face a penalty. Companies may sell surplus allowances to other companies. A cap-and-invest program uses the proceeds generated from the auction of allowances for designated purposes.

Ten states currently have cap-and-trade systems. Nine are Northeastern states that joined together in 2009 to create a common carbon market through the Regional Greenhouse Gas Initiative. California runs a separate program that began in 2012 and is linked to the Canadian province of Quebec and Nova Scotia through the Western Climate Initiative. These programs include emissions from transportation fuels, natural gas, industrial processes, and electricity generation including emissions associated with imported electricity. The linked jurisdictions participate in joint auctions of allowances, and allowances issued by one jurisdiction can be used by any compliance entity within the linked programs.

During the 2017 session, the Senate and House environment committees held a series of joint meetings focused on state and regional cap-and-invest policies and programs, leading to the introduction of Senate Bill 1070 at the end of the 2017 session. During the interim that followed, the chairs of the Senate and House environment committees convened four work groups which resulted in the introduction of two similar, but not identical, measures in 2018: House Bill 4001 and Senate Bill 1507. These bills received hearings during the 2018 session but were not enacted. House Bill 5201 was enacted by the 2018 Legislative Assembly which included a one-time appropriation of \$1,435,000 to establish the Carbon Policy Office. The funding included an allotment of \$650,000 for studies to examine certain areas. In March 2018, President Courtney and Speaker Kotek established the Joint Committee on Carbon Reduction.

House Bill 2020A modifies state anthropogenic greenhouse gas (GHG) emissions reduction levels goals. The measure also establishes the Climate Policy Office (CPO) within the Department of Administrative Services and requires the CPO to adopt the Oregon Climate Action Program (OCAP) by rule. The Act declares that the purpose of the regulatory and investment portion of OCAP is to: a) achieve emission level reductions; b) promote GHG emissions sequestration and mitigation; c) promote adaptation and resilience by natural and working lands, fish and wildlife resources, communities and the economy, the state's infrastructure in the face of climate change and ocean acidification; and d) to provide assistance to households, businesses, and workers impacted by climate change or climate change policies that allow the state to achieve greenhouse gas (GHG) goals. Requires OCAP to place a cap on the total regulated anthropogenic GHG emissions through setting allowance budgets starting in 2021 through 2050 and provide a market-based mechanism for covered entities to demonstrate compliance.