

SB 1530 -2, -27 STAFF MEASURE SUMMARY

Senate Committee On Environment and Natural Resources

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Sub-Referral To: Joint Committee On Ways and Means

Meeting Dates: 2/4, 2/6, 2/8

WHAT THE MEASURE DOES:

Statewide Greenhouse Gas Emission Reduction Goals

Modifies state anthropogenic greenhouse gas (GHG) emissions reduction **goals** to: at least 45 percent below 1990 emission levels by 2035 and at least 80 percent below 1990 emission levels by 2050.

Oregon Greenhouse Gas Reduction Board

Establishes the **Oregon Greenhouse Gas Reduction Board** (Board) in the Department of Environmental Quality (DEQ). Establishes Board membership requirements for 16 non-voting members and 7 voting members; specifies voting members are appointed by the Governor, subject to Senate confirmation. Establishes Board responsibilities.

Oregon Greenhouse Gas Initiative

Establishes the Office of Greenhouse Gas Regulation (Office) in DEQ under the Board. Specifies Office administrator is appointed by Governor, subject to Senate confirmation. Declares purposes of the regulatory and investment portion of the **Oregon Greenhouse Gas Initiative** (OGGI) are 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, the economy, and 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. Directs the Board to adopt rules (in accordance with the Administrative Procedures Act) necessary for the Office to implement the OGGI.

Allowance Budgets

Requires Board to place a **cap** on the total regulated anthropogenic GHG emissions through setting **allowance budgets** for 2022 through 2050 and provide a system for covered entities to buy and sell allowances and offset credits used to demonstrate compliance. Stipulates that the annual allowance budget for 2022 must be a number of allowances equal to baseline emissions. Requires allowances available each year to decline by constant amount necessary from 2023 through 2035 and 2036 through 2050 to accomplish reduction goals. Requires Board to adopt rules for the allowance system.

Covered Entities

Directs Office to designate specified **covered entities**. Establishes process for Office to calculate **baseline emissions** attributable to covered entities. Requires Office to **exclude** from regulation GHG emissions from the combustion of aviation, watercraft, or railroad locomotive fuel and emissions attributable to a landfill. Authorizes Office to exempt any person that imports a de minimis amount of gasoline and diesel fuel as determined by rule. Establishes process and requirements for Office to **allocate allowances**. Establishes system for retirement for certain electric system managers, electricity service suppliers, natural gas powered electric power generation facilities, and motor vehicle fuel importers and suppliers. Establishes requirements for Office to designate trade-exposed natural gas users (TENGUs) and covered entities engaged in emissions-intensive, trade-exposed processes as **EITE entities**. Establishes system for **direct distribution of allowances** to electric companies, electric system managers, natural gas utilities, and EITEs. Directs Office to establish, by order, **emissions efficiency**

benchmarks for goods manufactured by EITE entities and specifies process for establishing such benchmarks. Requires Office to report to Legislature on benchmarks no later than September 15, 2030.

Offset Projects

Establishes requirements 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 benefits in Oregon. Establishes requirements on Board in adopting offset protocols related to forestry and agriculture and conservation on natural and working lands, and on offset consultation and reporting.

Auction

Requires Office to hold **auction** at least annually and establishes process and requirements for such auctions, including setting for 2022 an auction floor price, allowance price containment reserve floor price, and hard ceiling price and a schedule for prices to increase by fixed percentage over inflation 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 OGGI program must be transferred to the **OGGI Operating Fund**; and the remainder to the **Climate Investments Fund**. Requires Office to prepare annual progress report after the close of each compliance period with specified information on allowances, holding accounts and reserves, GHG emission reductions, an estimate of the impacts of the OGGI on fuel prices and utility bills, an analysis of the state's progress toward emission reduction goals and trends in GHG emissions by sector, and an evaluation of the public health benefits and other co-benefits of GHG emission reductions. Declares intent of Legislative Assembly to implement OGGI to prevent fraud, abuse, or market manipulation while upholding the public interest in transparency in public process and government by making certain market activity information available in aggregate form.

Funds

Establishes **OGGI Operating Fund**. Establishes the Transportation Decarbonization Investments Account and uses. Establishes the Climate Investments Fund and uses. Establishes **wage and labor provisions** for use of funds. Requires no later than January 1 of each even-numbered year, Office to deliver a **Climate Investments Funds biennial report** to the Governor and Legislative Assembly and Department of Transportation (ODOT) to deliver a Transportation Decarbonization Investments Account biennial report to the Oregon Transportation Commission, Governor, Legislative Assembly. Requires Office and ODOT to jointly select an independent third-party organization to prepare a **biennial compliance audit** of all programs, projects, or activities funded by the Climate Investments Fund and the Transportation Decarbonization Investments Account.

Public Utility Commission

Directs **Public Utility Commission (PUC)** to oversee **use of proceeds from sale of allowances by electric company** to specified benefits. Requires electric company to use proceeds from sale of allowances directly distributed at no cost for specified purposes. Directs PUC to establish **trust account** for the benefit of each natural gas utility regulated under OGGI. Requires utility to prepare a plan for use of money in trust account to benefit utility's sale customers and establishes portfolio of approaches for use of funds. Requires PUC to determine amount of proceeds from sale of allowances directly distributed to natural gas utility and establishes use of those funds. Directs that a TENGU receives **rate relief** in specified years equal to the amount of revenue generated by sale at auction of the allowances allocated to natural gas utility on behalf of that user; sets declining amount. Requires

TENGU compliance with approved **energy management system audit** and implementation plan. Establishes **Traded Sector Greenhouse Gas Reduction Program Fund**. Directs PUC to adopt a program for making grants and loans from fund available to TENGUs and certain EITE entities. Requires **PUC Biennial report** to Legislative Assembly and Office on how electric companies and natural gas utilities have made use of proceeds from sale of certain allowances. Directs PUC to establish process for timely recovery of costs incurred by public utilities associated with compliance with OGGI. Authorizes PUC to include **differential rates** or to reflect amounts for programs that enable public utility to assist low-income residential customers.

Related Program Changes

Revises authority of the Environmental Quality Commission (EQC) to require **registration and reporting of certain GHG emissions**. 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. Requires EQC to adopt rules regulating use of **hydrofluorocarbons** in certain products. Abolishes the **Oregon Global Warming Commission**. Revises requirement for **ethanol content** in gasoline. Prohibits sale of general service **lamps** that do not meet certain **energy efficiency standards**.

Judicial Review

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.

Economic Analyses

Directs Legislative Revenue Officer, in consultation with ODOT and other appropriate state agencies, to conduct specified **economic modeling and analyses**. Requires submittal of report detailing the results to committee of Legislative Assembly relating to environment and Joint Committee on Transportation on or before September 15, 2022.

Just Transition Plan

Directs Board to develop a **Just Transition Plan** and to submit plan to committee of Legislative Assembly relating to environment no later than September 15, 2025.

Appropriation

Appropriates \$_____ to DEQ for carrying out provisions of Act. Establishes operative dates.

Declares emergency, effective upon passage.

REVENUE: May have revenue impact, but no statement yet issued.

FISCAL: May have fiscal impact, but no statement yet issued.

Subsequent referral to Joint Ways and Means Committee

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

-2 Oregon Greenhouse Gas Reduction Board

Modifies board **membership**. Identifies 10 non-voting members. Directs Governor to appoint seven voting members, subject to confirmation by the Senate. Requires members be Oregon residents well informed on energy and climate issues; one member must represent impacted communities. Revises language regarding eligibility to be voting board member; establishes person not eligible if person holds any office or position under any political committee or party or a business with which the person is associated is an entity directly regulated by the Board.

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Modifies Board **responsibilities**. Authorizes Board to convene **advisory committees**; require Board chair that is appointing advisory committees to include at least one member who represents impacted communities and to take into consideration the geographic and demographic diversity of the state.

Directs Board in rulemaking to avoid rules under which GHG emissions or GHG reductions are counted more than once.

Allowances

Deletes language allowing sale of allowances from **price containment reserve** only to address high costs of compliance instruments for covered entities. Identifies "**retail**" **customers** for protection from cost increases through direct distribution of allowance from electricity price containment reserve. Deletes provisions establishing that compliance instrument does not constitute property or a property right for any purpose under state or local law, including taxation. Deletes provision establishing that receipt by covered entity of an allowance directly distributed at no cost may not be subject to any local tax, fee, assessment or other charge and is exempt from taxation under specified state laws.

Covered Entities

Directs Office, in **2025 – 2050**, to retire from annual allowance budget on behalf of person that produces or imports liquid or gaseous **fuel** other than natural gas, a number of allowances equal to 100 percent of regulated emissions attributable to combustion of motor vehicle fuel that is delivered in to a fuel tank used for propelling a motor vehicle at a delivery point with a zip code located outside the boundaries of specified 20 counties and the cities of Bend and Klamath Falls.

Authorizes the electors or governing body of a county or city to by ordinance or resolution apply the cost of OGGI to motor vehicle fuel delivered within the boundary of the city or county. Increases from 19 to 20 the number of counties exercising option to join program that triggers application of cost of OGGI to entire state.

Initiates annual decline of number of allowances directly distributed to electric system managers in 2023.

Revises formula for number of allowances that Office directly distributes to covered natural gas utilities and calculation of emission efficiency benchmarks.

Adds Bakeries and Tortilla Manufacturers to list of trade-exposed natural gas users.

Specifies Board, not Office, may adopt or amend rules to establish **emission efficiency benchmarks**.

Revises criteria for direct distribution of allowances to an **EITE** entity.

Offsets

Revises **forestry offset protocol** related to avoidance of permanent or temporary net cumulative reductions, attributable to offset projects, in regional supply of wood fiber harvested from non-federal forestlands in Oregon, that is available to wood product manufacturing facilities in this state. Specifies Office recommends to Board, does not update, offset protocols. Allows State Forestry Department to recommend temporary adjustments to forestry protocols.

Funds

Authorizes use of **Operating Fund** to reimburse or advance payment to another state agency.

Revises definition of "Metropolitan climate plan" to include a transportation GHG emission reduction plan adopted by a county or city and that has been approved by the Board.

Revises direction to Oregon Transportation Commission (OTC) on selection of **transportation projects** and distribution of moneys to local governments. Requires a local government when allocating moneys to consult with

affected eligible Indian tribes and with community organizations representing impacted communities.

Directs a majority of moneys distributed from **Climate Investments Fund** to be used in a manner that benefits impacted communities. Prohibits moneys distributed to State Forester to be used for fire suppression. Directs Office to transfer 10 percent or \$10 million, whichever is less, to the **Just Transition Fund**.

Requires no later than June 1 of each even-numbered year, Board to deliver **Biennial Climate Action Investment Plan** to Legislative Assembly and Governor. Requires plan to identify short- and long-term opportunities for uses of fund and include an analysis of how activities funded by moneys allocated by legislature would serve to effectively further OGGI purposes. Requires Board to consult with specified entities in developing plan. Requires first plan submittal no later than June 1, 2022. Directs Governor to consider plan recommendations in preparing Governor's budget. Applies **wage and labor** provisions to transportation projects.

Requires Office to also deliver **biennial expenditure report** to OTC. Requires that private entities receiving moneys from Transportation Decarbonization Fund also report to the Department of Transportation. Requires **performance audit reports** to begin in 2025 and be prepared once every five years.

Deletes direction to Board to develop a Just Transition Plan. Establishes **Just Transition Fund**. Directs Board, in consultation with Higher Education Coordinating Commission, the State Workforce and Talent Development Board, the Employment Department, and others, to establish a **Just Transition Program** to distribute funds and a **Just Transition Plan** to implement program. Require moneys distributed to support economic diversification, job creation, job training, and other employment services. Restricts use of funds to programs and activities that provide financial support for workers displaced or adversely affected by climate change or climate change policies. Requires Board to deliver **Just Transition Program report** each even-numbered year to Governor and Legislative Assembly. Establishes report components.

Public Utility Commission

Revises plan elements a natural gas utility may prepare to use moneys in **PUC-established trust account**.

Revises rate relief provisions for trade-exposed natural gas users (TENGUs) to nonvolumetric bill credits pursuant to formula developed by PUC. Sets formula criteria. Identifies amounts PUC must use for benefit of TENGUs in specified years. Revises criteria for PUC to determine payback period for efficiency improvements identified in audit. Replaces Traded Sector GHG Reduction Program Fund with **Traded Sector GHG Reduction Revolving Loan Fund**. Restricts electric company and natural gas utility cost recovery from retail customers to support adoption and service of alternative forms of transportation vehicles. Revises criteria for identification of an investment in infrastructure that support the adoption of alternative forms of transportation.

Related Program Changes

Makes Legislative finding that GHG emissions from energy facilities subject to site certificates or amended site certificates are a significant threat to public health, safety or the environment. Directs **Energy Facility Siting Council** to require a facility with a site certificate or amended certificate in effect on or after the effective date of Act to comply with specified sections of Act. Revises direction to Department of Consumer and Business Services to adopt rules to amend the state building code to permit use of **hydrofluorocarbons** or other substitutes not prohibited by Environmental Quality Commission. Revises standard for **ethanol content** in gasoline to substitute range of concentration with minimum of 9.2 percent.

Judicial Review

Revises **judicial review** section to establish purposes for which original jurisdiction is conferred on Supreme Court.

Reports and Reviews

Directs economic modeling studies to address impacts on fuel prices and costs and analyses to address costs and

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benefits associated with changes in transportation sector.

Enforcement

Authorizes Board to institute **action or proceeding** for legal or equitable remedies to enforce compliance with Act or restrain further violations.

Establishes **civil penalties** for specified offenses.

Appropriation

Reduces **appropriation** to PUC for Traded Section GHG Reduction Revolving Loan Fund from \$50 million to \$10 million.

-27 Adds to -2 amendment:

Section 95a. Directs Office to conduct a **study** on whether amendments to section 13 of Act (application of OGGI transportation fuel in 2025-2050) are necessary or recommended to further purposes of Act. Require report on study submittal no later than September 15, 2022.

Section 95b. Directs Housing and Community Services Department (HCSD), in consultation with Office and interested stakeholders, to develop a proposal for assisting households using fuels that are not natural gas for **home heating**. Requires proposal to give priority to assisting low and moderate income households or impacted communities through specified actions. Directs development of program options. Requires, on or before September 15, 2021, directs HCSD to submit a report detailing the proposal and steps to the Legislative Assembly and the Board.

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. Emitters 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 may 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, emitters 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.

Eleven states currently have cap-and-trade systems. Ten are Northeastern states that have joined together 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

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appropriation of \$1,435,000 to establish the Carbon Policy Office. The funding included an allotment of \$650,000 for specific studies. In March 2018, the Joint Committee on Carbon Reduction was established.

House Bill 2020 would have established a cap-and-trade program in Oregon; the measure received hearings during the 2019 session but was not enacted.

Senate Bill 1530 would modify state anthropogenic greenhouse gas (GHG) emissions reduction levels goals. The measure would also establish the Greenhouse Gas Reduction Board (Board) and the Office of Greenhouse Gas Regulation (Office) and require the Board to adopt the Oregon Greenhouse Gas Initiative (OGGI) by rule. The Act would declare that the purposes of the regulatory and investment portion of OGGI are 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, the economy, and 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. The measure would require the Board to place a cap on the total regulated anthropogenic GHG emissions through setting allowance budgets starting in 2022 through 2050 and provide a system for covered entities to buy and sell allowances and offset credits used to demonstrate compliance.