

CARBON ALLOCATION TASK FORCE

UNRESOLVED ISSUES AS OF MAY 18, 2006

In its discussions, the Oregon Carbon Allocation Standard Task Force has developed a list of placeholders for key issues. It is now time to start revisiting the placeholders to see if there can be agreement on any of them. There are other issues for which there are no placeholders other than an agreement to address the issue. One option would be to appoint a subcommittee to attempt to resolve the issues. The process for addressing these issues will be discussed at the June 1, 2006, meeting of the task force.

1. **Applicability of Load-Based Cap on Electricity:**
 - a. Load-based cap-and-trade system for CO₂ emissions from load serving entities in the **electricity sector**. Load serving entities include consumer-owned and investor-owned electric utilities, energy service suppliers, and self-generators.
 - b. Is **25 MW nameplate capacity the appropriate threshold** for including self-generators?
2. **Base years** for determining initial cap on emissions, based on Oregon Public Utility Commission emissions labels methodology:
Average of 2003, 2004, and 2005 emissions (and load if applicable)
3. **Allocation of Allowances**
 - a. **mechanisms for calculating allowances** that the state would distribute for free: either 100 percent based on CO₂ emissions in the base years above or 95 percent based on CO₂ base-year emissions and 5 percent based on base-period megawatt-hours (MWh) load.
 - b. Three **options for auctioning** allowances:
 1. Zero auction—no allowances auctioned; all distributed for free
 2. 5 percent auctioned, 95 percent distributed for free
 3. 20 percent auctioned, 80 percent distributed for free
 - c. Allocated (free) **allowances would transfer with load** that shifts between two load-serving entities (LSEs).
4. If there were an auction, the **revenues** would be used to further the goal of reducing carbon emissions. Need to identify mechanism for use of revenues.
5. **Flexibility Mechanisms**
 - a. Provide a mechanism to **adjust or to update allocations**, including for new large single loads and new large self-generators (parameters not yet decided).

- b. Allow **banking** of excess allowances with a requirement that LSEs surrender oldest allowances first, i.e. "first in-first out."
 - c. **Do not allow LSEs to borrow** allowances from future allocations.
 - d. **Multiple-year compliance periods**, e.g. three-years.
 - e. Provide for **hydro mechanism** that extends the compliance period by one year for each year of "exceptionally bad hydro generation" (to be defined), e.g. it would allow averaging over four years instead of three. This does not change the annual allocation or cap.
 - f. Provide for **alternative compliance payment** of \$40 tonne.
 - g. **Allow Circuit breaker** that delays the decline in the cap; **accelerator** that tightens it?
 - h. Will **trading** be allowed? Any limits on purchasers of Oregon allocations?
 - i. Will **offsets** be allowed? If yes, how many, what type, from where, what vintage?
6. What **others sectors** should the task force investigate? What would be the form of the cap? How would they be phased in? Would we start with mandatory reporting for those new sectors?
7. What is the role of a **renewable portfolio standard** and how would mechanics of compliance conform to compliance with carbon cap?