



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Insert DIVISION

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TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Jason Heuser, Policy/Government Affairs Program Manager
DATE: January 26, 2018
SUBJECT: 2018 Legislative Session Update – Carbon Cap and Trade Legislation
OBJECTIVE: Information

Issue

The 2018 State Legislative Session will convene February 5, 2018. This memo is to update the Board of key issues of interest to EWEB and the current status of these issues as the session nears.

Background

Prior to the start of each legislative session, the Board adopts general policy directives for advocacy at the Capitol, which guide the work of EWEB's lobbying activities. When political considerations test the applicability of those directives, the General Manager makes a determination as to whether a fundamental shift in direction is required. The Board may be asked to reaffirm its policy or direct staff to make necessary adjustments. The Board adopted a 2018 legislative agenda at the December 5, 2017 Board Meeting.

Discussion

On January 22, the Oregon Legislative website released the text of SB 1507 and HB 4001 to the public and both of these proposed Carbon Cap and Trade Bills are expected to be formally introduced in February. Analysis of these two bills by EWEB staff is in progress and full analysis of the two bills has not yet been completed at the time of this memo. However, EWEB staff's initial assessment of the two bills at this stage of analysis is that they are both generally consistent with the principles and preferences set forth in EWEB's 2018 Legislative Agenda. Staff analysis thus far includes the following assessments of key issues:

- 1) The emission reduction program described in each bill is direct, economy-wide, technology neutral and market-based.
- 2) Both bills provide general program design directives with the details of those directives being delegated to rulemaking by the Environmental Quality Commission (EQC) acting as the policy board of the Department of Environmental Quality (DEQ). Given the complexity of many design choices, this seems to be the right balance of legislating and rulemaking, as the latter method can sometimes better deal with technical issues.
- 3) Both bills indicate that the default point of regulation for the electric sector will be on load serving entities (LSE's, typically utilities). However, the bills explicitly leave discretion for the EQC to adopt by rule a different point of regulation in the future if a more effective method is developed or if an alternative method is a requisite for linking to another state or regional carbon program. EWEB has been a proponent of an upstream "source-based" point of regulation instead of "load-based" as we believe this approach is more likely to produce the necessary greenhouse gas emission reductions in

the electric sector. This default approach seems appropriate though as an upstream approach for the electric sector in Oregon may not be immediately feasible, though it may be soon. An approach using “load-based” as a default approach, while retaining flexibility to transition to a more upstream “source-based” approach in the future when technical issues have been resolved, seems at this time to be a rational design choice initially.

- 4) In both bills, utilities emitting more than 25,000 metric tons annually will be subject to a compliance obligation -- this will include EWEB. Unlike earlier draft bills circulated in 2017, both bills now explicitly signal legislative intent that any electric utility that has a carbon compliance obligation, including EWEB, shall receive carbon allowances, which covered entities “retire” to cover the greenhouse gas emissions they are responsible for. Furthermore, EWEB and any other consumer-owned utility will have the allowances directly allocated to them and will retain discretion to make their own decisions about how to utilize the allowances or any revenues from the sale of allowances. These new changes in the bills are important improvements ensuring equitable treatment for EWEB and other consumer-owned low-carbon utilities and preserves local control for the governing boards of these utilities.

Overall, EWEB staff feel that both SB 1507 and HB 4001 appear so far to be generally consistent with EWEB’s adopted carbon policy principles and we will continue to engage with decision-makers in Salem to maintain and improve the bills.

Recommendation/Requested Board Action

This memo is for informational purposes. No board action is requested.