



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Jason Heuser, Policy/Government Affairs Program Manager
DATE: September 4, 2018
SUBJECT: Legislative and Regional Policy Update
OBJECTIVE: Information

Issue

This memo is to update the Board on the current status of key legislative and public policy issues of interest to EWEB its customers.

Background

The Board adopts general policy directives for advocacy on legislation and other public policy matters, 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 policy directives or direct staff to make necessary adjustments.

Discussion

Development of Oregon Cap and Trade Legislation for consideration in the 2019 Session

Proponents of the unsuccessful Oregon carbon cap and trade bill in the 2018 session were frustrated by assertions that the legislation was too complex, needed more time, or had not been vetted enough and needed more process. In response, the legislature has taken action on two key measures to address these concerns going into the 2019 legislative session leading to a great deal of activity this year.

First, the legislature created a Carbon Policy Office (CPO) within the executive branch, staffed by the Governor's office and the Oregon Department of Environmental Quality (DEQ). Informally, several other state agencies have earmarked staff to support the CPO on issue-specific work groups and public meetings or process to prepare a more refined cap and trade proposal for consideration in the 2019 legislative session. Furthermore, the legislature earmarked \$1.7 million to fund the work of the CPO, including authority to contract with consultants and private entities to conduct expert analysis and studies on topics such as how to best address "leakage" (i.e. how to minimize the possibility of emissions and economic activity simply moving beyond Oregon's borders without compromising the integrity of the program's environmental goals.) The CPO has formed a diverse mix of formal and informal ad hoc work groups to delve into different elements of the design of an Oregon Cap and Trade program and correct, refine, or fill in blanks (items that would otherwise be left to administrative rulemaking by state agencies) in the 2018 legislation. EWEB staff has been invited to and already participated in the meetings of two of these work groups (Point of Regulation in the Electric Sector and Impacts on Low Income Utility Customers) and expects even more participation in additional work groups (Allowance Allocation and Offsets) as 2019 draws closer.

Second, in February the legislature formed a special Joint House/Senate Interim Committee on Carbon Reduction, including the Senate President, Speaker of the House, the Chairs and Minority Vice Chairs of both the Senate and House Energy and Environment Committees, and 8 additional legislators 4 from each party. The committee is meeting monthly in 2018, receiving presentations from subject matter experts in both state government and the private sector on considerations for designing a cap and trade program. Additionally, this joint committee is consulting with the CPO and also conducting conversations amongst the members of the committee towards setting forth an initial set of principles to be used in designing the program, to guide to design of a straw proposal that will be the initial basis of legislation to be drafted prior to the 2019 session.

The activity of the CPO and the Joint Committee are indicative of an unprecedented level of focus and priority for the legislature in formulating a market based economy wide carbon reduction policy. While it is difficult at this time to project the outcome of this effort, the likelihood of Oregon enacting such a policy is the highest it has been since 2008 when Oregon was an active participant in the development of the Western Climate Initiative (WCI).

The CPO invited EWEB, along with Portland General Electric (PGE), Pacific Power, and the Bonneville Power Administration (BPA), to participate in an ad hoc work group this summer to explore the feasibility of different options for the point of regulation in the electric sector, particularly for imported electricity.

EWEB has consistently supported a point of regulation as close to the source of electric generation as possible (“upstream”), on the basis that this would be the most effective, transparent and accurate approach to influence outcomes in all three facets of the electric sector:

- 1) Incorporating a carbon price in the dispatch of electric generation;
- 2) Embedding a carbon price in the procurement of electricity, including shorter-term real time market transactions;
- 3) Sending a carbon price signal to the use of electricity by retail customers.

For imported power generated outside of Oregon, EWEB has advocated for a “first jurisdictional deliverer (FJD)” approach for assigning carbon obligations for imports, similar to the approach employed by California’s state program. The legislation introduced in Oregon’s 2018 legislative session would have placed the carbon obligation for electricity imports on Oregon load-serving entities (utilities). This was in part due to doubts that an FJD approach was feasible to implement in Oregon due to asymmetry between Oregon’s political boundaries and those of FERC Balancing authorities, unlike California where these respective boundaries aligned more closely. EWEB was very concerned that a load-serving entity point of regulation would have a more muted effect in reducing GHG emissions by sending an ineffective price signal to the dispatch and procurement of electric generation and that a load based approach would function more like a pass through cost to retail electric customers without effectively changing outcomes upstream in the sector.

Throughout the meetings of the ad hoc work group EWEB effectively made a case demonstrating that an upstream FJD point of regulation for imported power can in fact be adapted to the attributes of multi-state balancing authorities present in Oregon. Some participants of the work group countered with other proposals that differed from EWEB’s recommendation, but were alternatives to load based regulation and shared characteristics of EWEB’s preferred upstream approach. The CPO will be presenting the point of regulation options identified by the ad hoc work group to the Joint Carbon Reduction Committee this month. EWEB staff will continue advocate to the CPO and legislators for an upstream point of regulation.

Recommendation/Requested Board Action

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