

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY

**TESTIMONY BEFORE THE SENATE COMMITTEE ON
ENVIRONMENT AND NATURAL RESOURCES AND THE
HOUSE COMMITTEE ON ENVIRONMENT AND WATER**

**Senate Bill 80
February 5, 2009**

Chair Dingfelder, Chair Cannon and members of both committees, my name is Andrew Ginsburg and I am the Air Quality Administrator for the Department of Environmental Quality (DEQ). I am here today to describe the major provisions of Senate Bill 80.

1. **Greenhouse Gas Cap-and-Trade System.** Section 2 of SB 80 directs the Environmental Quality Commission (Commission) to adopt rules establishing a greenhouse gas cap-and-trade system by December 31, 2010. The program would not be implemented until after the 2011 legislative session, giving the 2011 Legislature the opportunity to review the rules and make revisions or decide not to continue the program. As director Pedersen noted, the rules would be adopted after extensive public involvement and economic analysis, which I will describe under Sections 9 and 10 of the bill.

The proposed program would include the electricity and industrial sectors beginning in 2012, with transportation and heating fuels being added in 2015. Emissions associated with electricity generated within Oregon, as well as electricity imported into Oregon, would be capped under the program. The program would apply to the six major categories of greenhouse gases: carbon dioxide, methane, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons and perfluorocarbons.

At the center of the program would be a declining cap on total greenhouse gas emissions from covered facilities, with the initial cap based on 2012 emissions and the ending cap based on a reduction of at least 15% by 2020. This cap would be divided into units called allowances, which would be distributed to individual facilities in the program. Section 2 directs the Commission to establish procedures for allocating the allowances, which would not involve a charge or auction. Capped facilities would be required to reduce their emissions to the level of allowances they hold, or trade for additional allowances with other facilities. The rules would include implementing details, including procedures for verifying compliance and using offsets in lieu of allowances.

To minimize cost, section 2 directs the Commission to design the program in a way that facilitates trading between Oregon facilities and facilities in other states. This includes setting minimum standards that cap-and-trade systems in other states and regions must meet in order to obtain reciprocity with Oregon's program, as well as provisions that would ensure that Oregon can obtain reciprocity from other states.

2. Application of the Greenhouse Gas Cap-and-Trade System to Energy Facilities.

Sections 3 through 5 of SB 80 clarify how the cap-and-trade system would apply to energy facilities that have existing site certificates and have already obtained offsets under Oregon's carbon dioxide emissions performance standard for new power plants. Since 1997, new power plants in Oregon must offset their emissions in excess of the carbon dioxide emissions performance standard established by the Energy Facility Siting Council. The current offset amount is \$1.27 per ton of excess emissions.

Under Sections 3 through 5, the cap and trade program would apply to power plants with existing site certificates, and plants that purchased offsets under the carbon dioxide emissions performance standards would be given an equal amount of free allowances to prevent double counting. Going forward, new power plants would not have to purchase offsets under the carbon dioxide emissions performance standard if they are part of the cap-and-trade system.

3. **Greenhouse Gas Emissions Registration and Reporting.** Section 6 of SB 80 would authorize the Commission to require emissions reporting from electricity importers and fuel distributors. As Director Pedersen mentioned, accurate and comprehensive data about Oregon's greenhouse gas emissions is crucial to ensure we are making progress in reducing greenhouse gas emissions. Transportation and heating fuels account for approximately 40% of Oregon's emissions, while net electricity imports account for roughly 20%. Emission reports used for compliance with the cap and trade program adopted under Section 1 would have to be verified by a third party.

Section 6 would also authorize the Commission to establish registration fees to cover the cost of the greenhouse gas reporting program, the cap and trade program, and other programs for which registration is required. In the Governor's Recommended Budget, DEQ has requested six greenhouse gas-related positions to be funded by a registration fee: two positions to develop and implement the cap and trade program at a cost of about \$375,000 and four positions to implement greenhouse gas reporting at a cost of about \$925,000 for the coming biennium.

4. **Transition to a Federal Greenhouse Gas Cap-and-Trade System.** Section 7 of SB 80 authorizes the Commission to suspend all or part of Oregon's cap-and-trade program if the federal government adopts a cap-and-trade program that would reduce emissions by at least as much as Oregon's program. Alternatively, the Commission may suspend Oregon's program if a federal program would provide funding for Oregon to implement other programs to reduce greenhouse gas emissions. Federal cap-and-trade bills introduced in recent years have offered financial incentives to states with existing programs to join the federal program, which means that Oregon could benefit financially by implementing its own program ahead of a federal program.

5. **Climate Improvement Fund.** Section 8 of SB 80 establishes a Climate Improvement Fund that can be used to reduce or sequester emissions, help Oregon adapt to a changing climate, reduce the economic impacts of the cap-and-trade program and administer the cap-and-trade program. Because SB 80 does not include an auction, this fund will initially have no funding. If Oregon later decides to auction part of the state's emission allowances, the auction proceeds would be deposited in the fund and used for the authorized purposes. Funded projects could include energy efficiency upgrades for low income households and small businesses, training to help displaced workers find jobs in new "green" industries, and research into applying carbon sequestration techniques on Oregon's farms and forests.

6. **Oregon Climate Initiative Task Force.** Section 9 of SB 80 would create an Oregon Climate Initiative Task Force, appointed by the Governor for the purpose of gathering public input and making design recommendations for cap-and-trade. The members would be

selected for their ability to represent the “best interests of Oregon as a whole,” and to reflect the geographic diversity of the state. Director Pedersen spoke about the very strong emphasis that DEQ would place on the public process envisioned under SB 80 for developing the implementing details of the cap and trade program. DEQ would provide staffing for the Task Force, including organizing and conducting public hearings throughout the state to engage stakeholders and members of the public in the Task Force’s work.

Section 9 directs the Task Force to evaluate the costs and benefits of its design recommendations to the environment, public health and economy. The Task Force’s final recommendations would be due to DEQ by October 1, 2010, in time for consideration by the Commission when it adopts rules to implement cap-and-trade in December, 2010.

7. **Report to Legislative Assembly in 2011.** Section 10 of SB 80 requires DEQ to submit the Commission’s rules to the 2011 Legislature, along with a report outlining the key policy decisions made by the Commission, the costs and benefits of the adopted cap-and-trade program, and how DEQ used the recommendations of the Climate Initiative Task Force. To reiterate, SB 80 provides that the cap-and-trade rules adopted by the Commission could not be implemented before the end of the 2011 Legislative session, giving the 2011 Legislature the opportunity to review the rules and approve, modify or discontinue the program.

Thank you for your consideration. I would be happy to answer any questions you may have.