

Climate Stability and Justice Act of Oregon ([SB 1574](#)) Questions and Answers:

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Why is SB1574 necessary? Oregon is not meeting its goals to reduce greenhouse gas emissions because the [existing 2007 law](#) was a goal without effective implementation. That law intended Oregon to reduce statewide greenhouse gas emissions to be 10% below 1990 emission levels by 2020 and at least 75% below 1990 levels by 2050. Those goals were based on recommendation by the International Panel on Climate Change, comprising 3000+ qualified climate scientists. Without controlling greenhouse gas emissions, the scientific consensus predicts catastrophic worldwide consequences. While early signs are observed, the big risk is reaching climate tipping points causing intense global temperature rise. SB1574 defines a comprehensive strategy. Below is a short summation of how key components may be implemented.

How does SB1574 accomplish the objectives? To obtain performance consistent with Oregon's 2007 goals, SB1574 creates a legally binding cap on emissions along with comprehensive implementation strategy to gradually reduce emissions. It authorizes a "[cap and trade](#)" [market based mechanism](#) of trading and selling emission allowances which drives down emissions using innovation and pricing incentives. The law requires Oregon's Department of Environmental Quality to adopt rules and timelines to meet the cap. It stipulates that Oregon work with other states and jurisdictions to increase effectiveness through economies of scale and shared implementation when practical. Multi-state implementation would logically be through the [Western Climate Initiative](#) (WCI), to which Oregon already belongs along with Washington, Utah, New Mexico, California and Arizona in the US and British Columbia, Manitoba, Ontario and Quebec in Canada. Three existing WCI members have adopted a cap and trade approach involving a market mechanism which is self-supporting and yields revenue for investments to transition us to a low emission future.

In sum, SB1574 actualizes the 2007 aspirational goals by law. Implementation is assigned to an Oregon agency. It must be emphasized that the agency operates under rules adopted by the Environmental Quality Commission, a citizen based commission appointed by the Governor. [Precise implementation details are reached through agency research, public hearings, legislative oversight and commission rule making. To respond to public requests about how we expect the policy to be fully implemented, the following is based on findings from the three current jurisdictions using the WCI cap and trade mechanism, anticipating that the agency would follow a similar approach.](#)

What would Oregon's involvement in a market mechanism such as cap and allocation look like? Permission to emit large quantities of CO₂ type gasses into the atmosphere would be defined under regulatory "allowance". One allowance (unit) authorizes an emitter to discharge one ton of CO₂e gas. The allowances are purchased in a quarterly open market auction. As in a standard auction, a minimum value is set for an allocation to insure tangible value, such as \$12 per ton of CO₂e. The act stipulates that entities which emit above 25,000 metric tons carbon dioxide equivalency (MtonsCO₂e) per year (CO₂e) would be subject to the regulation, representing an estimated 85% of Oregon's conventional emissions. This approach involves major fossil fuel users like larger utilities and industries and fuel distributors but not local gas stations, small businesses such as farms, nor individual consumers. It is estimated that less than 100 businesses would be included in the 25,000 MtonsCO₂e.

How does the allowance auction work? WCI, mentioned above, operates the non-profit [WCI Inc.](#) auction market program, saving states the costs of running individual programs. Under the rules of the cap-and-trade program, every regulated facility must acquire at auction and surrender allowances equal to their emissions. So Portland's General Electric coal generating station, for example, would need to turn in something like 4 million allowances to cover 4 million tons of CO₂ equivalent annual greenhouse gas emissions. The total number of allowances available in the program in any year is exactly equal to the cap for that year. As the cap declines, so too does the number of allowances. As allowances become scarcer, their value will tend to increase--creating an incentive for businesses to reduce emissions in the most cost-effective manner. Most auction proceeds are turned over to the state and invested in lowering greenhouse gas emissions, such as conservation, renewable energy and research or offsetting the burden for low-income earners. This builds a low emission economy while creating jobs in clean technology. Businesses that reduce energy can sell and pocket their surplus allowance proceeds, incentivizing conservation.

How much would the state earn and what does it do with the auction income? Current experience from other states shows the bid price to be stable and currently at about \$13 per ton of emitted greenhouse gas, about 2% the cost of energy. If this approach were applied in Oregon today it is estimated that it would yield about \$250 million per year if

the program were administered similarly to California. Administration cost of the program is estimated at one half percent. The mechanism is essentially a hybrid regulatory and free market mechanism which stimulates business to find least cost ways to reduce emissions. The auction costs encourage business efficiencies but also yield funds for public discretionary investments toward a low emission future, like renewable energy, conservation and research. Other jurisdictions report these investments leverage job growth in clean industries at 2 to 3 times the national average and a net benefit above program cost above a 3:1 ratio.

What would this cost the average Oregonian? Please see:

<http://www.policyinteractive.org/How.much.would.HCA.cost.Oregonians.v6.pdf>

How can we be sure this won't turn into another Enron boondoggle? Enron was a for-profit corporation dedicated to maximizing profit. SB1574 is a regulatory mechanism dedicated to lowering emissions. WCI, Inc. has put a number of safeguards in place to deter and detect any attempts to manipulate the market. Every market participant must register with the agency and submit to Oregon's jurisdictional regulation. Every transaction in the market is tracked in a central database (each allowance contains a unique serial number). Hoarding rules and purchase limits prevent any one actor from cornering the market. The agency will employ an independent third party monitor with extensive experience monitoring energy markets which are similar to carbon markets, especially in terms of analyzing the bids and activities of participants. SB1574 prevents loopholes and sleight-of-hand.

I've heard talk about a carbon tax as a different way to go. What's the difference between a carbon tax and a cap-and-trade program? A carbon tax is a straight tax on fossil fuels, with the idea that polluters will pay an incentive to reduce emissions. But a carbon tax does not actually guarantee greenhouse gas reductions; the tax could be passed onto consumers, and the incentive hinges on the level of the tax. Public opinion evidence shows that the public isn't supportive of the level of tax necessary to lower greenhouse gasses effectively. A carbon tax is commonly described as "revenue neutral", whereas SB1574 is a pollution fee in which revenue is reinvested in lowering future emissions. Public opinion surveying finds more than 2:1 favor toward reinvestment of emission fees over refunding a tax. A carbon tax also fails to address the full range of other greenhouse gasses (e.g. methane and oxides of nitrogen), estimated to be causing more than 20% of global warming.

Successful cap-and-trade programs, in contrast, specifically require greenhouse gasses to go down over time, because there is an actual declining cap set on those emissions. This type allows the market to determine the price through the trading system. Companies that reduce emissions can sell or trade unused allowances to companies that exceed theirs. Over time the total cap decreases, making allowances scarcer and providing an incentive to find cost-effective ways to cut emissions. This approach is working successfully in ten states to lower emissions. Current Oregon [voter polling](#) opinion shows strong majority support for regulating carbon emissions in the manner of SB1574.

What about low income people who don't have flexibility to adjust to changes? SB1574 strives for equity through specified protections and investments in and for low income and impacted economically distressed rural communities.

If Oregon emits only a quarter of a percent of the world's emissions, why should we do anything at all? Emissions are a worldwide collective action problem. Without leaders to address a challenge, no solutions are ever possible. By joining the Western Climate Initiative group, Oregon enters a solution representing the fifth largest economy in the world. This contributes to a larger outcome as well as encourages our nation and other countries to take greater action to regulate emissions to stabilize global warming. Failure of federal leadership necessitates that states take responsibility. SB1574 proponents think Oregonians should take the moral high ground and economic high road in addressing this paramount global problem.

By assigning agency responsibility to meet the goals, authorizing new implementation tools, and agency course-correction for unforeseen circumstances or discoveries, the Act implements the 2007 goals. It achieves emission reductions incrementally in a self-supporting way and stimulates the market to find the best methods at least cost. Three WCI members using the market based mechanism, California, Quebec and Ontario, report effective emission reductions as well as job growth above their national averages.

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