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CONCORD, MA - WASHINGTON, DC

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978-369-5533
www.mjbradley.com

State Fact Sheet ■ January 2018

Oregon's Cap-and-Invest Program: Implications for Utilities and Ratepayers

Oregon lawmakers are considering adopting an economy-wide, cap-and-invest program to meet the state's long-term greenhouse gas (GHG) reduction goals. On January 8, 2018, the Oregon House and Senate released cap-and-invest bills[1] that are expected to be taken up for a vote during the state's short legislative session. These bills are broadly based on Senate Bill 1070[2], introduced in 2017, which set a framework for reducing emissions in the state, while mitigating potential cost impacts and driving investment in clean energy projects.

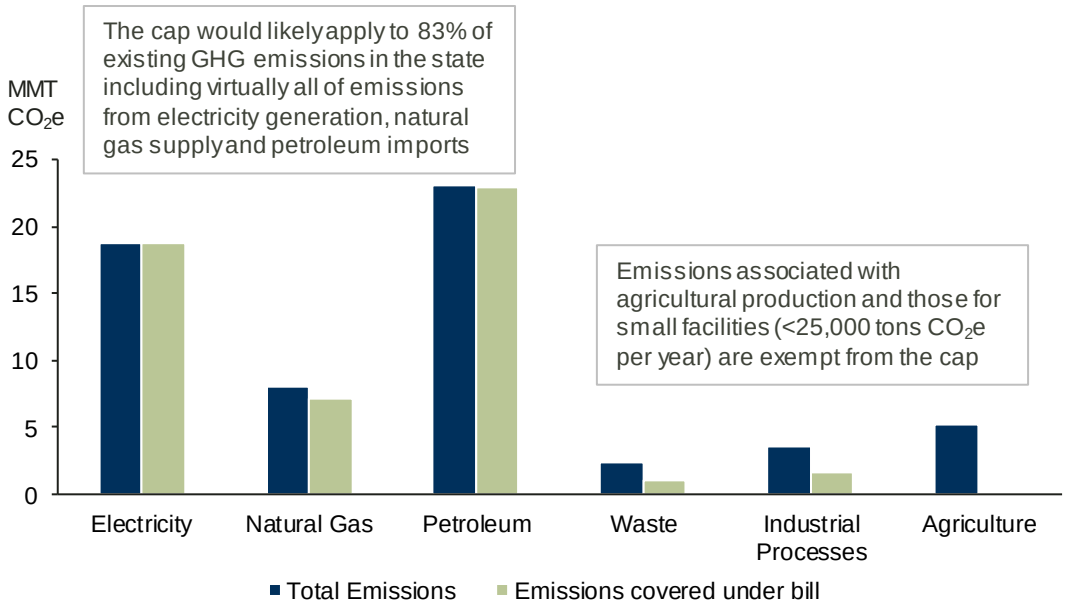
Oregon is one of a dozen or so states and Canadian provinces taking steps to limit GHG emissions to address the threat of climate change. States in the Northeast have been working to strengthen the existing Regional Greenhouse Gas Initiative (RGGI) trading program through 2030. Virginia has proposed a trading program that would link with the RGGI market. New Jersey is expected to rejoin RGGI after Governor Chris Christie pulled the state out of the program in 2011. And, Ontario joined California and Quebec in the Western Climate Initiative (WCI) carbon market in 2018 after launching its own program in 2017.

This fact sheet focuses specifically on what Oregon's cap-and-invest program could mean for electric and natural gas utilities and ratepayers. The discussion is based on analysis of SB 1070 and the draft House and Senate bills released by Senator Michael Dembrow and Representative Ken Helm ("2018 draft bills"). A full discussion of Oregon's cap-and-invest proposals is provided in a separate fact sheet entitled: "What Would Cap-and-Invest Mean for Oregon?".

What Would Oregon's Cap-and-Invest Mean for Utilities and Ratepayers?

Based on the proposals to date, nearly all major sources of GHG emissions would be covered under the program, including electric generating facilities, petroleum and natural gas suppliers, as well as various industrial sources (Figure 2). These compliance entities would generally pass on the allowance costs to consumers, so the proposals include provisions to benefit consumers and mitigate the costs of the program. The legislative proposals include important flexibilities to limit program costs, including offsets, opportunities to link with other cap-and-trade markets, reinvestment of auction proceeds, and cost-containment measures.

Figure 2: Oregon Emissions and Expected Coverage under Cap-and-Invest by Sector (2015 emissions)



Source: Energy and Environmental Economics, "Memorandum on Macroeconomic Modeling," prepared for Oregon Department of Environmental Quality, February 2017, found at: http://www.oregon.gov/deq/FilterDocs/app3memo.pdf.

An Oregon cap-and-invest program has the potential to generate a significant amount of revenue from the auction of carbon pollution allowances that would be invested in programs to benefit consumers while cutting emissions and addressing the impacts of climate change. Existing cap-and-invest programs have used auction proceeds to:

- Increase GHG reductions by directing funds to specific emission reduction opportunities, such as scaling up renewable energy, promoting energy efficiency, and funding clean energy innovation and research;
- Benefit impacted communities by promoting economic diversification, supporting job creation, conducting job training, financing local clean energy and energy efficiency projects, and providing energy-bill assistance; and,
- Mitigate costs for other consumers by funding residential and business energy efficiency and energy bill assistance.

California and RGGI both direct money raised by their auctions to benefit consumers, especially those in low-income or communities disproportionally impacted by climate change and emissions ("impacted communities"). Based on the 2018 draft bills, Oregon's cap-and-invest program would include provisions specifically designed to aid low-income consumers and economically distressed communities. The bills propose to require that proceeds from the sale of allowances allocated to electric and natural gas utilities must be invested in activities that "stabilize and reduce energy bills while also lowering greenhouse gas emissions." This includes providing bill assistance to low-income residential customers, energy-intensive industries, or small businesses, or investing in weatherization and energy efficiency projects. Furthermore, a share of funds raised through the auction of allowances would go toward greenhouse gas reduction measures, clean energy investments, clean tech R&D, job creation programs, and climate resiliency programs in impacted communities or economically distressed areas around the state.

Existing cap-and-invest programs have benefited local economies and consumers. Since the start of the first compliance period of RGGI in 2009, RGGI states have generated and disbursed over $2 billion in proceeds from its allowance auction back into the economy.[i] It has provided substantial benefits to households and industries by saving $460 million on energy bills between 2012 and 2014 due to energy efficiency improvements, and contributed to the creation of a cumulative 30,000 job-years.[3] California's program has administered $1 billion for projects located in or benefiting economically distressed communities.[4] A study by researchers at UCLA found that California's program benefits low-income communities by reducing electricity bills by $50 per year, natural gas bills by as much as $18 per year, and gasoline expenditures by as much as $98 per year for low-income households.[5] A sampling of specific projects benefiting consumers in California and RGGI states are provided below.

[i] More details about RGGI's decision to auction emissions allowances is available at: http://www.mjbradley.com/rggi-market

Investing in Greenhouse Gas Reduction Measures

New York has used its RGGI funds to support a variety of clean energy projects that will drive further greenhouse gas reductions. These include investments in electric vehicle (EV) infrastructure, building greener and more sustainable cities, promoting industrial innovation, scaling up renewable energy, and investing in research for low-carbon transportation. For example, the ChargeNY program aims to install 3,000 EV charging stations in the state and put 30,000-40,000 EVs on the road by 2018.

Source: NYSERDA. Charge NY website. Accessed Dec. 1, 2017.

Investing in Disadvantaged Communities

Over $1 billion in funds from California's cap-and-trade program have benefited individuals in disadvantaged communities. This includes the Navdip Badhesha Farm Project. Using $150,000 in funds allocated from California's cap-and-trade auction revenue to the State Water Efficiency and Enhancement Program, Navdip Badhesha installed efficient drip irrigation, an energy-efficient water pump, and a 30 kW solar array on his 40-acre farm in a disadvantaged community in Fresno County. California estimates these investments will save 25 million gallons of water and reduce 57 tons of carbon dioxide per acre annually.

Source: California Air Resources Board. 2017 Annual Report to the Legislature on California Climate Investments Using Cap-and-Trade Auction Proceeds. March 2017.

Lowering Energy Bills for Consumers

In 2014, Connecticut invested 70 percent of its RGGI auction proceeds on energy efficiency programs, including the Connecticut Energy Efficiency Fund and the Connecticut Municipal Energy Cooperative. These programs, among other things, fund home energy audits, provide discounts for efficient lighting, and incentivize efficient design for new buildings. In 2014, Connecticut provided these services to over 989,000 households and 6,000 businesses.

Source: RGGI, Inc. State Investment Pans: Connecticut. Accessed Dec. 1, 2017.

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