

Overview of Senate Bill 1070 (2017)

Senate Bill 1070 (2017) establishes a **Greenhouse Gas Cap-and-Investment Program** to:

- **Reduce greenhouse gas (GHG) emissions:**
 - By 2025 to levels that are at least 20 percent below 1990 levels;
 - By 2035 to levels that are at least 45 percent lower than 1990 levels; and
 - By 2050 to levels that are at least 80 percent lower than 1990 levels.
- Promote **adaptation and resilience** by Oregon’s communities and economy in the face of climate change.

Carbon Pollution Market

The measure directs the Environmental Quality Commission (EQC) to create a **carbon pollution market** to regulate GHG emissions beginning in 2021. The EQC may require participation in this market by any emissions source that meets or exceeds a reported annual verified GHG emission level of 25,000 metric tons of carbon dioxide (CO₂) or CO₂ equivalent¹. In 2021, EQC will set a **cap** on total emissions statewide – not individual caps for each source of emissions – and publish a schedule for the cap to decrease by a predetermined amount each year until 2050.

An “**allowance**” authorizes the emission of up to one metric ton of carbon dioxide (CO₂) or CO₂ equivalent. Allowances can be bought and sold. The EQC will set an annual allowance budget for 2021 and decrease the budget on a schedule each year until 2050. DEQ will distribute allowances to emissions sources subject to the cap as follows:

- A percentage of allowances, as specified by EQC rule, will be placed in a price containment reserve to moderate price if there are unanticipated high costs for compliance instruments²;
- Allowances will be distributed directly and free-of-charge to electric companies (not including consumer-owned utilities) and natural gas utilities;
- Allowances may also be distributed directly and free-of-charge to consumer-owned utilities;
- Allowances will be distributed directly and free-of-charge to some sources, including emissions-intensive, trade-exposed industries to address leakage³ and as determined necessary by EQC; and
- All remaining allowances will be auctioned.

A maximum of four **auctions** will be held annually. Carbon market participants must **register** with EQC to participate in auctions. The EQC will set an auction floor price to increase by a predetermined amount each year and set a maximum number of allowances that may be held at any one time for use or trade by a registered entity.

Sources subject to the cap must submit compliance instruments² to DEQ every three years equal to their **compliance obligation**. A penalty for noncompliance is assessed at the rate of four allowances for every one allowance that a source fails to submit.

¹ A CO₂ equivalent is the amount of CO₂ by weight that would produce the same global warming impact as a given weight of another greenhouse gas, based on the best available science.

² A compliance instrument is an allowance or an offset credit. Each instrument is equal to one metric ton of CO₂ or CO₂ equivalent.

³ Leakage means a reduction in GHG emissions in Oregon that is offset by an increase in GHG emissions outside of Oregon.

An **offset project** is a project that is not subject to the cap that reduces or eliminates GHG emissions. These projects may generate offset credits that can be bought and sold for use by sources subject to the cap, to meet their compliance obligations. Offset projects must:

- Be located in the United States or a country with which EQC has entered an agreement for administering a carbon pollution market;
- Not otherwise be required by law;
- Result in GHG emissions reductions or eliminations that:
 - Are real, permanent, quantifiable, verifiable and enforceable;
 - Are in addition to GHG emission reductions or eliminations otherwise required by law; and
 - Would not have otherwise occurred if not for the offset project.

Offsets may make up no more than 8 percent of a covered source's compliance obligation in each compliance period. The EQC may place additional restrictions on the number of offset credits that may be used if a source is geographically located in an impacted community⁴.

Climate Investments

(See accompanying "Governance of Auction Revenues" diagram)

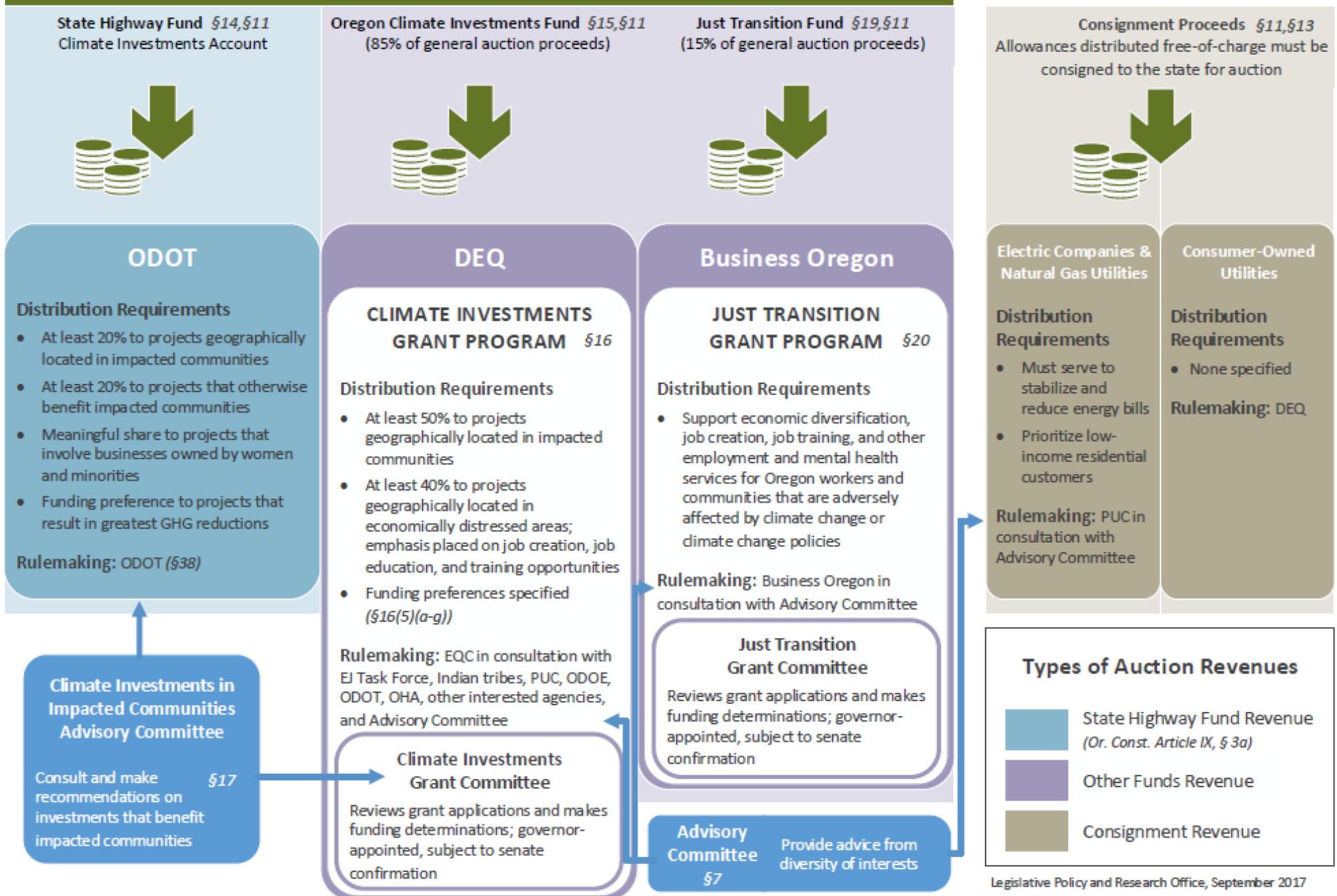
Auction revenue proceeds are distributed as follows:

- Proceeds from the auction of allowances distributed directly and free-of-charge to utilities may only be used by an electric company or natural gas utility to stabilize or reduce consumers' energy bills while also lowering GHG emissions. The use of these proceeds by consumer-owned utilities will be governed by DEQ rules.
- Proceeds that constitute revenue described in Article IX, section 3a of the Oregon Constitution will be deposited into the **Climate Investments Account** in the State Highway Fund. This account is continuously appropriated to the Department of Transportation (ODOT) to further the purposes of the GHG Cap-and-Investment Program. Specified percentages of the fund are directed to support projects geographically located in or benefitting impacted communities.
- Of the remaining proceeds: 85 percent will be deposited in the **Oregon Climate Investments Fund** and 15 percent will be deposited in the **Just Transition Fund**. Agencies receiving appropriations from either fund are directed to consult with advisory committees.
 - DEQ will distribute funds from the Oregon Climate Investments Fund through a Climate Investments Grant Program to further the purposes of the GHG Cap-and-Investment Program. At least 50 percent of moneys will be distributed to projects or programs that are geographically located in impacted communities and at least 40 percent of moneys will be distributed to projects that are geographically located in economically distressed areas.
 - The Oregon Business Development Department will distribute funds from the Just Transition Fund through a Just Transition Grant Program in support of economic diversification, job creation, job training and other employment and mental health services for Oregon workers adversely affected by climate change or climate change policies.

⁴ An impacted community includes those communities most at risk of being disproportionately impacted by climate change. See complete definition on page 6, lines 37 – 45 of SB 1070.

STATE TREASURY

All SB 1070 funds must be used to reduce greenhouse gas emissions and to promote climate change adaptation and resilience by Oregon's communities and economy.



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Governance of Auction Revenues

