



To: Chair Sen. Lee Beyer

Re: Final Comments to the Clean Energy Jobs Workgroup on Utilities & Transportation (Workgroup)

November 14, 2017

Dear Senator Beyer,

The Oregon Fuels Association (OFA) represents the majority of Oregon's fuel distributors, retailers, and commercial fueling entities. Cap-and-trade is of great significance to our members, who include many Oregon small businesses. OFA does not take a position on cap-and-trade at this time, but rather provides details below on several issues that were not discussed or fully-vetted during the Workgroup meetings.

Cost-of-Fuel

OFA has begun to analyze the impact of cap-and-trade on the cost of fuel. The data we have collected suggests a significant cost impact on fuel, averaging a one-cent per gallon impact for every allowance required to be purchased. For instance, at an allowance “floor” price of \$16.00 in the first year of the program, the estimated impact is \$0.16 (16-cents) per gallon of fuel. Some studies suggest allowance prices would be sold well above the floor price during the program. This is a significant cost-of-fuel impact without any discussion about free allowances allocated to the transportation sector to offset these costs.

OFA members already struggle to keep a declining number of fueling stations open for a rural population. These members would realize a major competitive disadvantage with stations located in neighboring states, making keeping a station open extremely challenging. Moreover, border retail fuel stations will also be at a market disadvantage with states like Washington and Idaho that do not participate in a cap-and-trade program. This would create an unfair outcome based on a business' geographic location.

Point-of-Regulation and Definition of “Regulated” Party

OFA supports the Point-of-Regulation for the fuels sector at the Fuel Importer and/or “Rack Position Holder” level. This should ensure that all fuel entering Oregon (with an exception for exported fuel) is included under the program. Mitigating the impact of cap-and-trade on Oregon's small businesses is critical to the success of the program.

Similarly, OFA wants to ensure that any new cap-and-trade program will be applied in a fair way across-the-board, as to not create a competitive advantage or disadvantage for companies. The issue of at what level the “cap” should be set for the fuels sector remains an open question and one that was not addressed at all during the Workgroup meetings. OFA would urge more time spent on this important topic.

Distribution of Allowances

After discussions with the DEQ and workgroup members, OFA believes there could be new, costly regulatory burdens on our members. OFA is interested in exploring ways to decrease the cost of administering the program on Oregon businesses currently impacted, such as through the distribution of free allowances. We would like to know how the Chair envisions the distribution of allowances to the regulated entities in the fuels sector. This was not discussed in the Workgroup meetings.

Prohibition on Third-Party Brokers in the Allowance Market

OFA does not support a third-party brokers’ ability to influence the Oregon allowance market. OFA supports limiting allowance market players to those who are either directly regulated by the cap-and-trade program or who are appointed agents of a regulated party. Additionally, OFA supports the unlimited banking of allowances for an unlimited period of time.

Revenue Allocation

Early projections appear to estimate that this program could raise nearly \$1.4 billion in new revenue every biennium. OFA strongly agrees that revenues raised from fuel must be allocated to the Highway Trust Fund as set forth in Article IX, section 3a, of the Oregon Constitution. In addition, OFA strongly believes any revenue allocation should be made by elected legislators, not unelected committees or agency personnel, unless already set forth by ODOT. We believe this will provide an increased confidence in the program by improving transparency and public participation for this statewide program. OFA urges the legislature take the necessary time to address these critical issues and additionally, meet the procedural requirements for a bill raising revenue required under the Oregon Constitution.

Thank you for your consideration of these initial issues that impact the Oregon fuels market. We look forward to working with you as this process continues.

Sincerely,

Danelle Romain & Mike Freese, Representing the Oregon Fuels Association

Oregon Fuels Association

www.oregonfuels.org