

THE CARBON ALLOCATION TASK FORCE

January 9, 2007

The Honorable Theodore Kulongoski
Governor, State of Oregon
State Capitol Building
Salem, Oregon

Dear Governor Kulongoski:

In September, 2005, you appointed the Carbon Allocation Task Force to “examine the feasibility of, and develop a design for, a load-based carbon allowance standard for Oregon¹.” Undertaking this task was one of the key 2004 recommendations of your Advisory Group on Global Warming.

Our Task Force, composed of business, environmental, professional, academic and governmental members, has been meeting since to work through the complex problem of designing a load-based carbon “cap and trade” mechanism that would be “deliberate, predictable, effective, equitable and verifiable.”

We are pleased to transmit to you the attached Report of the Task Force, which contains the product of our 15 months of deliberations.

We believe the mechanisms described are feasible and responsive to your charge and the Advisory Group’s criteria. If implemented, it can reasonably be expected to deliver carbon emissions reductions through 2020 consistent with the State of Oregon emissions goals you have adopted. It contains: (a) a rigorous cap on such emissions, declining over time; and (b) numerous market-based and other flexible tools to allow regulated entities the ability to accomplish the reductions in the most cost-effective manner possible, as they judge to be the case.

To test the effectiveness and understand the cost implications of this design, the Task Force participated in the development of an economic model² that could test different approaches, and describe consequences. Preliminary results of that modeling indicate that this design can accomplish the projected carbon reductions, under most likely circumstances – that is, low to medium load growth – while Oregon ratepayers see somewhat higher electricity rates but lower overall electricity bills. This is accomplished by relying on energy efficiency and renewable investments that in combination can deliver positive rates of return for consumers. This is a strategy familiar to Oregonians who have seen such positive returns before – from our hydro investments of the 1940’s, 50’s and 60’s, and from energy conservation investments since 1980.

The model remains a work in progress, as such analyses always are, and the conclusions open to revision. We recommend that you ask Task Force members, utility analysts, Department of Energy staff and others to continue to test and refine the tool, reviewing its methodology and findings against those of similar industry analytic models in order to improve its usefulness in measuring the economic costs and benefits involved in undertaking an Oregon greenhouse gas cap and trade system.

¹ Measure GEN-2, page 68, Oregon Strategy for Greenhouse Gas Reductions, State of Oregon, December, 2004.

² Model findings and analysis attached.

In arriving at a “median” position on the elements of the design, the Task Force has worked through many alternative positions advanced by different parties. Most but not all members agree with the median position. Any member, of course, reserves the right to revisit median choices and alternatives as the package takes legislative shape. All Task Force members have the option of attaching their individual comments to this submission, detailing elements – or alternatives -- they may particularly favor or take exception to. These comments will give you more context for interpreting our work than would the end result alone.

You asked that the Task Force be sensitive to opportunities for Oregon to interact with parallel programs in other states. While the design we are forwarding is limited to Oregon entities at the outset, we have left open the potential for trading relationships along the West Coast and beyond. California, New Mexico and other western states have embarked on similar pathways to load-based systems, and our work has included regular communications with our neighbors to keep these doors open.

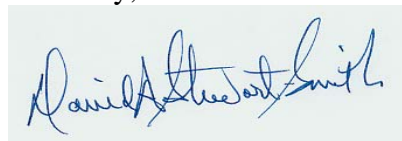
Ultimately, most Task Force members agree, a national carbon emissions reduction strategy is preferable to state-by-state efforts, however well designed. We recommend leaving open a window in Oregon’s initiative for deferring to such a larger design, subject to State review for its effectiveness in meeting Oregon’s goals.

The Task Force acknowledges that in any undertaking this extended and complex, there will be unanticipated conditions and unintended consequences, both positive and negative. The proposal we are advancing is designed to be robust under most foreseeable circumstances; to bend, not break; and to allow many adjustments to be made administratively. Still, we are trying to solve a problem many decades in the making, one that will in turn require decades to redress. We expect successor Task Forces, Governors and Legislatures to continue the work we are beginning.

Your Carbon Allocation Task Force authorized me to transmit to you this proposal for an Oregon Load-based Cap and Trade system for utility and stationary source greenhouse gas emissions. We have concluded that the “load-based carbon allowance standard for Oregon” you directed us to explore is indeed feasible, and we have developed this design pursuant to your direction. We recommend that you use this proposal as the basis for legislative action on climate change as soon as practicable, as one of the highest priorities of your second term. We further recommend that you seek agreements with other states to assess the feasibility of a broader regional greenhouse gas cap and trade mechanism with which this Oregon design can be integrated.

Finally, thank you for the privilege of chairing this effort. I offer my thanks and gratitude to Task Force members and to the staff of the Oregon Department of Energy for their tireless efforts and dedication.

Sincerely,

A handwritten signature in blue ink, reading "David Stewart-Smith", is displayed on a light blue rectangular background.

David Stewart-Smith, Chairman
Carbon Allocation Task Force

Attachments