

TRADING OF CARBON ALLOWANCES

This paper discusses trading of allowances that are issued by the state. It also discusses allowances issued by another state or country.

This is a different issue from how offsets are treated, even though offsets are also traded in markets. Offsets come from outside the regulated system. Offsets will be discussed in a separate paper.

A. Trading Among Oregon Load-Serving Entities (LSE)

If trading of allowances is allowed, an LSE could sell allowances it did not need to other LSEs, which could then use them to meet their requirements. Trading could enable LSEs to minimize the total cost of meeting the emissions limit more easily if one LSE had cheaper options for reducing carbon emissions and was willing to sell allowances. However, an LSE that sold allowances would have to weigh whether the allowances might be more valuable in helping it meet its cap in the future. Whether allowances could be banked and for how long would also affect a decision about whether to trade allowances.

There would need to be a system to track trades so that the state could verify the ownership of allowances when they are turned in at the end of each compliance period. If the proposed circuit breaker considers how many allowances are banked, that would be another reason for the state to know who holds allowances and of what vintage.

As long as the allowances carried their vintage, the state would not be concerned with how they were traded. The state would only be concerned that an LSE surrendered or retired enough valid allowances of the proper vintage to match its emissions for the appropriate reporting period.

Discussion question: Should Oregon allow LSEs to trade allowances?

B. Trading Into the Oregon System

There is a separate question of whether carbon allowances issued by other states or countries would be allowed for compliance with the Oregon cap. Criteria would have to be established for determining whether another capped system has a firm cap. The basic criterion would be that the allowance is from a system that is as rigorous in its cap as the Oregon system. Vintage would also be an issue.

The two capped systems under consideration at the moment are in the seven states of the Regional Greenhouse Gas Initiative and the carbon cap under the California Public Utilities Commission's proposed procurement incentive system, which would allow California investor-owned utilities to sell their allowances out of state. Neither system is in place yet.

Likewise, there would need to be consideration of whether to accept allowances from a Kyoto based system, e.g. from the European Union's Emissions Trading Scheme. There

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might be a limit to the amount of allowances from other systems that an LSE could submit for compliance in Oregon.

Discussion questions: **Should Oregon permit LSEs to purchase allowances from other states, assuming they meet Oregon criteria?**

Should Oregon permit LSEs to purchase allowances from countries complying with a Kyoto greenhouse gas emissions cap, assuming they meet Oregon criteria?

Should there be a limit on how many out-of-state allowances that an LSE could submit during a compliance period?

C. Trading Out of the Oregon System

The state could allow LSEs to sell their allowances outside the state. It would be up to another jurisdiction as to whether it would accept Oregon allowances.

Finally, if the state allows LSEs to sell outside the Oregon cap, there is an issue of whether an LSE could sell allowances to everyone? Should allowances only be sold to other capped entities and, therefore, be kept within regulatory schemes to expand their flexibility, or could another party purchase allowances in order to retire them, resulting in greater overall reductions?

Discussion questions: **Should Oregon allow LSEs to sell allowances to entities outside of the Oregon capped system?**

If yes, should there be any restriction on who could buy them?