

## CARBON ALLOCATION TASK FORCE

Date: January 6, 2006

To: Carbon Allocation Task Force Members

From: David Stewart-Smith, Chair

Subject: Schedule of Topics for Future Task Force Meetings

### **Schedule**

The first item on the agenda for our meeting on January 12<sup>th</sup> is a discussion of the schedule for addressing the topics needed to design a proposal for a carbon allocation standard by next summer. Staff sent you a proposed schedule on December 21<sup>st</sup>. You were also sent a list of detailed questions that would need to be addressed under each topic. I am enclosing both documents.

There will be half an hour at our January meeting for talking about the schedule. We will discuss the order of topics, not the detailed questions we need to answer particular topics. This half-hour will not be a time to raise concerns about specific issues. These will be discussed and resolved through the next six months, and beyond as necessary.

I ask your help in making an efficient use of our time. I will take up the next agenda item after half an hour. If you have questions or comments on the schedule or if you have questions you would like to add to the detailed list, please contact me at [d2s@pacificenergysystems.com](mailto:d2s@pacificenergysystems.com) or 503.227.7611. We will attempt to discuss all questions in the course of the task force. I would appreciate your comments on the detailed questions in advance of the January meeting.

As we discussed at the December meeting, I am asking you to consider specific elements of a design as placeholders as we work through all the elements of a complete standard. Designing a carbon allocation standard is a complex task. We will likely change our opinions about different elements as we understand better how all the pieces fit together. However, we must examine the individual elements with at least some provisional understanding in order to complete a whole design.

I am not asking members to commit to any specific element of the design when we agree to placeholder decisions. I am asking that members participate in a manner that allows the process to advance through discussions of the many elements. I ask that members withhold their judgment about the efficacy of the whole design until we have completed a design. It is not helpful to our process to demand to know exactly how the final system would work or what the costs and benefits might be before we have a tentative system.

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### **Committees**

I propose to expand the “Straw Committee” by one or two task force members and slightly alter its mission. Its role will be similar to the Drafting Committee of the Governor’s Advisory Group on Global Warming. This group will review and contribute to staff drafts of documents before they are distributed to the task force. I will create other committees or work groups as needed.

### **Technical Work group/Modeling**

In addition to having the full task force address the topics listed in the schedule, there will be a technical work group to address issues about numbers. The meetings will be open to participation by any interested persons, and task force members are encouraged to attend. Members will get all the e-mails sent to work group members, unless you tell us not to.

We, (the task force) will review the work of the technical work group at each meeting. Results will evolve as the questions are addressed. We hope that the technical work group can identify places on the trajectory of the decline in the cap that would potentially be associated with significant costs for different utilities between 2009 and 2020. Final estimates of the costs of complying with CO<sub>2</sub> caps will depend on the final design of alternative cap-and-trade systems.

In developing scenarios, the primary topic for the technical work group will be estimating ranges for supply curves for CO<sub>2</sub> reductions (\$ per tonne of CO<sub>2</sub>). The technical work group will look at a broad range of CO<sub>2</sub> reduction options. CO<sub>2</sub> reduction supply curves will be developed for the following: substituting energy efficiency and renewable resources for existing fossil fueled generation and to meet new load growth; fuel switching between electric and fossil-fueled end uses; co-firing coal generation with biomass; re-powering coal plants with gas; substituting new efficient gas-fired co-generation for existing generation; and re-dispatching existing gas- and coal-fired plants. I hope the technical work group will be able to expand this list. The supply curves will offer credible options for meeting the standard. They should provide cost ranges for aggregate designs, but will not provide a definitive final cost for any particular element.

Each utility will have a different supply curve depending mostly on its CO<sub>2</sub> emissions rate. A utility with a high emissions rate will see a large emission reduction from reducing load or increasing its supply from low emissions sources. Even where utilities have similar resource options, mitigation estimates may be too rough to sum to a useful aggregate supply curve or curves.

In any case, we need to recognize that the estimates of costs and economic impacts of regulating CO<sub>2</sub> emissions will be highly uncertain. We shall try to identify the key inputs and policy parameters and reduce uncertainty where we can. The work plan anticipates developing tools to manage that uncertainty, such as the “circuit breaker.”

There will also be a briefing for the technical work group by Jeff King on load growth and CO<sub>2</sub> emissions. Jeff has also offered to make available to the task force the Aurora western power production model that the Northwest Power and Conservation Council uses.

As you are aware, Hal Nelson, Portland State University, is a technical advisor to the task force. He will be assisting the task force in estimating cost curves and economic impacts. In addition to his expertise, he is developing a spreadsheet model of the Western grid for CO<sub>2</sub> and renewable energy policy evaluation. The primary uses of Hal's and Jeff's west-wide models will be to estimate the ratepayer price impacts for regulated entities given CO<sub>2</sub> emission constraints. Another goal of the modeling is to attempt to identify issues of CO<sub>2</sub> leakage from the load based system. The modeling can also simulate different regulatory scenarios on wholesale power markets if more Western states regulate CO<sub>2</sub> emissions.

In addition to the resources that are already committed to support the task force, the Center for Climate Strategies (CCS) has offered to provide technical support. If it is successful in finding funding, CCS would use an economic impacts model, created by Adam Rose of Pennsylvania State University, for screening and assessing options based on economic development impacts of alternative carbon allocation policies. This is an input-output model. The model would be capable of estimating direct and indirect impacts of electricity rate changes and of the new resources on the state's output, income, and employment. The economic model would use the results from the technical work group and the task force as input to the model.

Tentatively, the technical work group will meet on the following dates: January 26, March 2, April 6, May 11, and June 13. The meetings will be in Portland or Salem and will generally start at 10 AM. Other work groups will address interstate cost and emissions issues and collect data on Idaho Power and consumer-owned utilities emissions for 2003 through 2005. If there is interest, staff will meet with self-generating customers and retail electric service suppliers.

### **Staff's Role**

Finally, I have heard some concern that staff has had too prominent a role in guiding the discussion. Staff has had the advantage and the responsibility of working on the design of a load based cap and trade program in greater detail than members of the task force. Initially, I have relied on staff to focus our discussion while the rest of us gain greater familiarity with the issues. I believe that our discussion at the end of the December meeting on the baseline and allocation issues demonstrated that the members are now ready to engage fully and that members can guide the task force when they are discussing substantive issues. As the members focus on the elements of the design, the staff's role will further evolve to supporting the discussion with research and analysis of issues.