An explainer on Oregon's proposed cap and trade bill

By Claire Withycombe and Jake Thomas
Oregon Capital Bureau

The arguments and critiques are flying across the state about Senate Bill 1530, Oregon's plan to set limits on — and shrink — the state's greenhouse gas emissions.

Proponents of the program say it's needed in the face of federal inaction on climate change, which is already affecting the state.

Opponents say it would do little to solve climate change while increasing costs for consumers across the state and particularly damaging Oregon's rural economy.

The legislation, which stretches dozens of pages and has been amended repeatedly, has many moving parts. The bill is expected to make fuel, natural gas and other carbon-intensive energy sources more expensive. Proponents say that will spur efficiencies and innovations that could cause energy prices to drop.

The Oregon Capital Bureau consulted energy and climate policy experts and reviewed state and federal reports and analyses to cut through political claims and focus on what the program would do as proposed and how Oregonians would be affected.

What are greenhouse gases, and why does the state want to cut back on them?

Greenhouse gases trap heat in the atmosphere and change the Earth's climate, according to the U.S. Environmental Protection Agency.

The largest is carbon dioxide, released into the atmosphere by burning fossil fuels, solid waste and biological materials.

According to a 2018 report from the Oregon Global Warming Commission, the effects of increased greenhouse gas emissions are already here. The report states that forest fires start earlier, last longer, are more intense and produce smoke that's particularly harmful to sensitive groups. The report also states that Oregon is seeing less snowpack, which can result in droughts.

In the long term, Oregon could see a dramatic die-off of forests or sea-level rises in coastal communities, according to the report. According to that same report, Oregon emitted about 65 million metric tons of carbon dioxide equivalent in 2017. The state wants to cut that dramatically by 2050.

What environmental impact will this bill have?

Climate change is a global phenomenon. Critics of the current effort say that Oregon's emissions account for just a sliver of the total released worldwide.

After President Donald Trump pulled out of the Paris climate agreement in 2017, Gov. Kate Brown announced that Oregon would join other states, cities and countries to reduce greenhouse gas emissions.

Cap and trade programs can improve local air quality by reducing pollution, while lowering global greenhouse gas emissions.

I've heard this will make gas at the pump more expensive. Is that true?

The program will require companies importing fuel into Oregon to pay for emissions those fuels will generate.

Gas prices could increase by about 20 cents per gallon in 2022 in areas where the program will start, according to an analysis provided by Sen. Michael Dembrow, D-Portland, a leading author of the bill. After 2022, gas prices could increase by 1 to 2 cents per gallon annually.

According to that analysis, large parts of the state are years from experiencing an increase because the legislation would phase in the requirement on fuel importers by geography as follows:

2022: Portland metro area.

2025: Benton, Clackamas, Clatsop, Columbia, Douglas, Hood River, Jackson, Josephine, Lane, Lincoln, Linn, Marion, Multnomah, Polk, Tillamook, Washington and Yamhill counties.

2028: Coos and Curry counties, and the metropolitan areas of Bend and Klamath Falls.

Counties not included: Baker, Crook, Deschutes, Gilliam, Grant, Harney, Jefferson, Klamath, Lake, Malheur, Morrow, Sherman, Umatilla, Union, Wallowa, Wasco and Wheeler.

Counties can volunteer to join the program, which would give them access to new state money to use for local environmental projects aimed at reducing greenhouse gases.

Once 23 counties are covered by the regulations, the entire state would require fuel importers to buy allowances, essentially a permit to pollute from the state, that corresponds to emissions.

To insulate some Oregonians from those higher fuel costs, Senate Bill 1578 would provide a tax credit for people making less than $65,000 per year who live in areas of the state where fuel importers have to buy allowances. Those credits would be higher in counties subject to the regulation that are also more rural, where the average resident travels longer distances by car.

Greg Dotson, assistant professor of law at the University of Oregon who is an expert in environmental and energy law, said that before a similar system went into effect in California, critics predicted gas prices in that state would spike.

But he pointed to U.S. Energy Information Administration numbers showing that between 2014 and 2016, gas prices on the West Coast dropped by a dollar while California was enacting its carbon pricing program. Numbers show that gas prices in California since then have ebbed and flowed.

The global oil market largely dictates gas prices, Dotson said.

"These state programs, they're just the gnat on the dog, which is the global oil market," said Dotson. "And these big global oil market forces are determining oil prices."

How could this law affect manufacturing?

The program would apply to about a dozen manufacturers in the state that emit more than 25,000 metric tons of man-made greenhouse gases every year.

Potentially, nine of these facilities could be considered "trade exposed." That means these companies are subject to competition from states where environmental policies are less stringent, and they would be excused from paying for emissions if they are using the best technology available for their industry to control emissions.

What's considered "best available technology" would be assessed every nine years to figure out if those technologies have changed. As long as manufacturer continues to meet that benchmark, it can still qualify for free allowances.

How will this affect other businesses?

Fuel suppliers and utilities supplying natural gas and electricity will have to get allowances for their emissions. Altogether, about 100 companies could have to abide by the new regulations, according to the state Carbon Policy Office.

The Carbon Policy Office doesn't expect electricity utilities, which already have to abide by state laws moving them to clean energy sources, to increase rates as a result of cap and trade.

Businesses using natural gas might see increases in their utility bills. If companies are considered "trade exposed," utilities will get help mitigating rate increases for that natural gas use.

Natural gas utilities would be given allowances associated with emissions from "trade-exposed" commercial users of natural gas through a process called "consignment." That means the allowances would be sold at auction, and utilities can use the money from the sales to cover costs that otherwise would be passed on to trade-exposed businesses. As a result, those businesses would be protected from rate increases for their natural gas.

Businesses not considered trade exposed would still be sheltered from at least part of any increase in their natural gas costs.

NW Natural estimates that its small commercial natural gas users can expect to see a $168 cost increase in natural gas utility bills due to cap and trade in 2022.

I heard that lawmakers are rushing the bill through. Is there anything they don't know yet about the proposal?

There's no thorough estimate of how much money the law would raise for the state, according to the Legislative Revenue Office. The most authoritative forecast of how much money the law is expected will come from the Legislative Revenue Office. However, that forecast has not been produced.

The state Carbon Policy Office estimates the program could raise $254 million in 2022 and $437 million in the following two-year budget, though it has cautioned those numbers are preliminary. That money would pay for projects to cut greenhouse gas emissions, including making transportation more efficient.

Nonpartisan analysts at the Legislature have estimated that the state would spend about $22 million in the current two-year budget to run the new program.

What is cap and trade?

Cap and trade was pioneered under Republican President George H.W. Bush to reduce acid rain.

"The 1990 Clean Air Act set up a program to require electric utilities to reduce the amount of pollution they emitted in order to address acid rain," said Dotson. "And that program has generally been regarded as a big success."

Similar programs to deal with greenhouse gas emissions are now in place in California, the European Union and the northeastern region of the U.S., as well as the Canadian province of Quebec.

So how does it work?

The basic idea: charge companies for their emissions. The aim is to nudge companies to pollute less, and encourage them to use more efficient technology or rely more on renewable sources of energy.

Oregon's proposed program sets a statewide limit — the cap — on emissions in terms of metric tons of greenhouse gases. Over time, that limit is reduced. The trade part: Total emissions are divided into allowances. One allowance corresponds to one metric ton of greenhouse gases. An allowance, simply put, is a certificate allowing a producer to emit that one ton.

Those allowances would be distributed to companies through a state-run auction, provided for free or given under certain conditions, also known as "consignment." Companies can also buy and sell allowances to each other. A share will also be "retired," which will effectively make businesses importing fuel exempt in certain, more rural areas of the state.

According to the Oregon Carbon Policy Office, in 2022, when Oregon's cap and trade program would begin, the state is expected to emit 55 million metric tons of carbon dioxide equivalent. That means the state would distribute 55 million allowances in that first year.

The legislation sets statewide emissions targets. The 2035 goal is 26 million metric tons and the 2050 goal is 9 million metric tons, according to the state Carbon Policy Office.

ELTRYM HISTORIC THEATER
1809 First Street • Baker City • (541)523-5439
BARGAIN MATINEE IN ( ) Adults $7
ALL FILMS $6 ON TIGHTWAD TUESDAY
MOVIE SCHEDULE FEB. 28–MAR. 5

THE CALL OF THE WILD (PG)
Starring Harrison Ford. A sled dog struggles for survival in the wilds of the Yukon.
FRIDAY (4:10) 7:10
SAT&SUN (1:10) (4:10) 7:10
MON-THURS 7:10

SONIC THE HEDGEHOG (PG)
After discovering a small, blue, fast hedgehog, a small-town police officer must help it defeat an evil genius who wants to do experiments on it.
FRIDAY (4:20) 7:20
SAT&SUN (1:20) (4:20) 7:20
MON-THURS 7:20

PARASITE (R) Winner of the 2020 Academy Award for Best Picture.
FRIDAY (4:00) 7:00
SAT&SUN (1:00) (4:00) 7:00
MON-THURS 7:00

$9 Adult, $7 Senior (60+), Youth
S172396-1