<u>Highlights: House Bill 2020 Omnibus Amendment (-31 Amendment)</u>

The Joint Committee on Carbon Reduction heard public testimony over the past two months from Oregonians in Salem, Springfield, Medford, Baker City, Newport, The Dalles and Bend about House Bill 2020. The following is a summary of the omnibus amendment to HB 2020, which considered feedback the committee observed in public and written testimony.

Legislative Council will provide an overview of the amendment to the committee on Monday at 5 p.m.

***

Concern: *HB 2020 will disproportionally hurt rural and low-income communities by driving up fuel costs.*

Amendment: Climate Action Refund program (placeholder reference for a separate bill)

- A separate committee bill will be introduced that sets up a refund program.
    - The Department of Revenue will administer the program to offset the cost of additional road transportation fuels attributed to the cap and invest program.
    - The refund amount can equal 100 percent of the impact of the program on median household fuel costs and be no more than $100 million per year.
    - The bill will give ODOT rulemaking authority, in consultation with the Carbon Policy Office, to develop a formula to estimate the program impact. This includes consideration of vehicle miles traveled by region and estimated impact of the program on cost of transportation fuels.

Concern: *Investments need to be targeted to communities most impacted by climate change, including rural communities.*

Amendment: Impacted Communities

- In addition to the 10 percent of program funds that must benefit federally recognized tribes in Oregon, the amendment requires at least 40 percent of funds in the Climate Investment Fund benefit impacted communities, which includes rural communities.

Concern: *There is not enough clarity on how funds in the Transportation Decarbonization Account would be spent.*

Amendment: Transportation Investment Framework

- The Oregon Transportation Commission will administer a grant program from funds deposited into the transportation decarbonization sub-account.
- The competitive grants will be distributed 50-50 between the state and local projects.
- The OTC will consider geographic equity when making investment decisions and balance investments between greenhouse gas reduction and climate adaptation.

Concern: *Energy-intensive, trade-exposed industries (EITEs) will be put at risk and move operations to other states with less strict emission regulations. Some EITEs are not being recognized for the efficiency investments they have already made.*

Amendment: Alternative Approach to EITE Allocation

- EITEs will receive a direct allocation of allowances for 95 percent of their emissions for the first three years.
- Beginning in the fourth year of the program, EITEs will receive allowances for 95 percent of the emissions produced by manufacturing with the best available technology.
  - The best available technology benchmark reflects the equipment, processes and technology that is available and viable that would, if implemented, produce the product as efficiently as possible at the Oregon facility (referred to as the best available technology).
  - The best available technology will be updated every six years.
- Some program proceeds can be used to help EITEs invest in more energy-efficient processes.
- This approach is designed to prevent emissions leakage and account for the ability of Oregon manufacturers to implement these improvements, while ensuring that those manufacturers continue implementing emissions reduction wherever possible.

Concern: *There are too many special exemptions for emitters.*

Amendment: Numerous Exemptions Removed

- Fluorinated gas emissions are now covered under the program.
- Waste incinerators are now covered by the program, and the proceeds from their allowance purchases will be used to improve programs to reduce and recycle plastics.
- EITEs will also now receive 95 percent allocations, instead of 100 percent.
- Landfills will be separately regulated for their emissions.

Concern: *Wildfires have devastated Oregon communities and need to be specifically addressed in this program.*

Amendment: Wildfire Prevention

- Language has been added directing specific investments to wildfire prevention.

Concern: *Workers need assurance that they will have to access to good jobs in a low-carbon future.*

Amendment: Just Transition Fund

- There will be $10 million per biennium in allocations to a Just Transition Fund to support economic diversification, job creation, job training and other employment services.
- The Higher Education Coordinating Committee will also come up with a Just Transition Plan that includes a recommendation to the Legislature on how much money should be allocated to a reserve account that will be used to support employees impacted by the transition to a low carbon economy.

Concern: *Oregonians want to support Oregon workers and use local products.*

Amendment: Labor Standards and Contracting Preferences

- Model rules for smaller construction projects must include baseline wage and benefit standards, responsible contract provisions and a requirement for labor peace practices.
- All projects that receive more than $50,000 of funding from the Oregon Climate Action program must pay prevailing wage.
- A 10 percent contracting preference will be given for cement, copper, glass, wood, wood products, steel, aggregate products, and aluminum purchased with funds from the Oregon Climate Action Program that are manufactured in Oregon or in jurisdictions with a carbon pricing program comparable to Oregon’s program.
- Steel, iron, and coatings for iron and steel used in construction projects that receive more than $50,000 from the Climate Action Program must be produced in the United States.

Oregon Climate Action Program (HB2020):

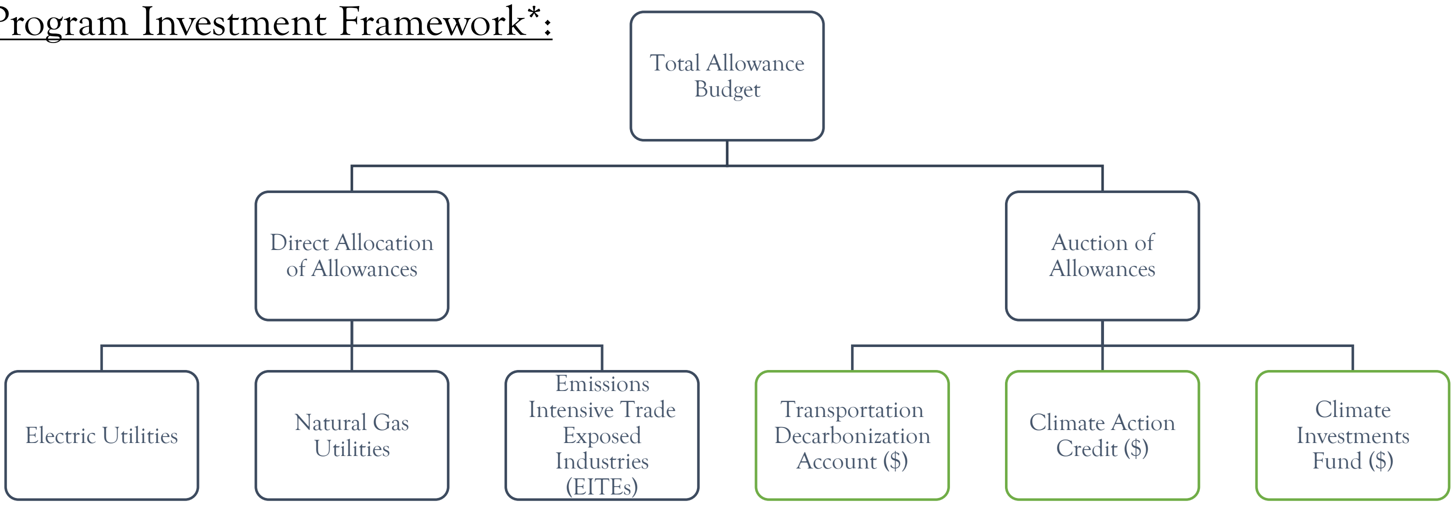
(with dash 31 amendments)

How Program Investments will Benefit Oregonians

Where do program investments come from?

Each year, the Oregon Climate Action Program (OCAP) will set an annual allowance budget that reflects the cap on economy-wide greenhouse gas emissions in Oregon that year. Regulated entities may purchase allowances, invest in offset projects, or receive direct allocations of allowances in specific circumstances (e.g., to mitigate impacts to low-income ratepayers in the natural gas sector). Program investments can occur as a result of all three of these mechanisms: sale of allowances, direct allocation of allowances, and offset projects. House Bill 2020 targets investments from particular sectors in different ways.

Program Investment Framework*:



*This illustration of the framework is a simplified version and does not include a number of reserve accounts included in HB2020 for various market controls.

Benefits to Oregonians - Direct Allocation of Allowances & Offsets:

Benefit of Allocations to Electricity:

To keep utility rates for customers as affordable as possible and to avoid double counting emissions reductions from coal to clean AND cap and trade, the program will directly allocate allowances to electric utilities to minimize ratepayer costs. Like all other regulated entities, electric utilities are included under the cap. They will have incentives to reduce emissions faster.

Proceeds from these allowances must:

- Benefit ratepayers, and;
- Reduce, sequester, or mitigate GHG emissions.

Benefit of Allocations to EITEs:

Emissions Intensive Trade Exposed Industries (EITEs) are industries that are at risk for "leakage," meaning they are particularly sensitive to price changes and market competition. Direct allowances to EITEs that reduce emissions according to a "Best Available Technology Standard" recognizes the investments they have made to decarbonize, while protecting existing jobs and incentivizing further decarbonization.

Benefit of Offset Projects:

Offset credits produce direct investments in natural and working lands to benefit farmers, forest managers, and tribes. A regulated entity may meet up to 8 percent of their compliance obligation through offset project investments.

Examples of approved offset projects in other jurisdictions:

- Reforestation
- Improved forest management
- Prescribed burning
- Livestock emission capture
- Low or no tillage practices on farmland
- Carbon sequestration in the soil

Benefit of Allocations to Natural Gas:

House Bill 2020 provides a direct allocation of allowances to natural gas utilities to <u>hold low-income residential customers harmless</u> to any potential increases in natural gas costs.

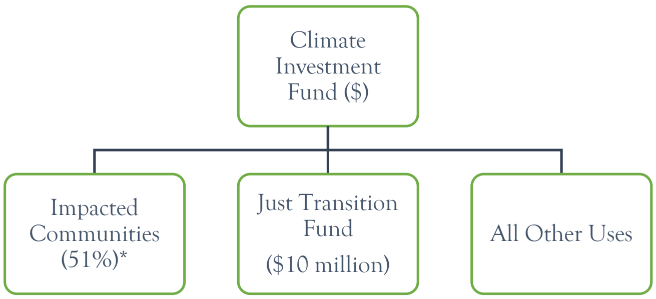
Prepared by: Taylor Smiley Wolfe

Date: April 10, 2019

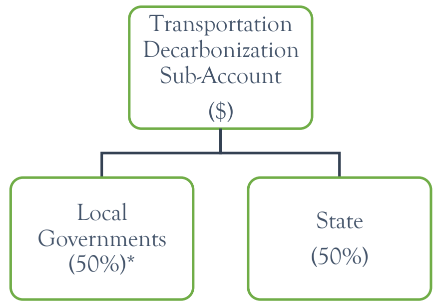
Benefits to Oregonians – Investments from Auction Proceeds

Investment Criteria: *All investments must meet the program goals (mitigation, reduction, sequestration of carbon, adaptation, economic transition).*

1. Prioritize projects that benefit impacted communities.
2. Complement efforts to achieve and maintain local air quality.
3. Provide opportunities for Indian tribes, members of impacted communities and businesses owned by women or members of minority groups.
4. Promote low carbon economic development opportunities and creation of jobs that sustain living wages.



*At least 10 percent of funds must benefit Indian tribes and up to 1 percent of funds may be used to provide technical assistance to Indian tribes and impacted communities that are applicants or recipients of program funds.



*Up to 1 percent of funds may be used to provide technical assistance to recipients.

Just Transition Fund:

- Support economic diversification, job creation, job training and other employment services;
- Provide financial and other support to workers who have been adversely affected by climate change or climate action policies.

Climate Investment Fund (Other Uses):

House Bill 2020 highlights programs investments, including:

- Energy efficiency improvements for retail customers
- Half of the proceeds from EITEs must be used to assist EITEs in using best available technology
- Low-income weatherization and energy efficiency
- Funding to strengthen resilience of fish, wildlife, and ecosystems in the face of climate change
- Protect local drinking water
- Investments in natural and working lands, including wildfire prevention, agriculture and forestry practices, and restoration of tidal marsh areas
- Clean energy technology and research
- Development of clean energy infrastructure or technologies, low carbon infrastructure or technologies

Climate Action Credit (HB3425):

The Department of Revenue (DOR) will administer a credit program to offset the cost of additional road transportation fuels attributed to the Oregon Climate Action Program.

- The credit will be provided to low and moderate income Oregonians who make less than 100 percent of Area Median Income (AMI).
- The credit amount will be 100 percent of the cost of the program to the median household by region.

Transportation Decarbonization Account:

Funds that are constitutionally restricted to the highway trust fund may only be used to make improvements within the road way and right of way but House Bill 2020 also requires that investments meet the goals of the cap and trade program (see "investment criteria above), and:

- Implement land use and transportation scenarios adopted by local government, metropolitan planning organizations, and metropolitan service districts;
- Minimize soil erosion, and reduce storm water runoff, and preserve natural resources adjacent to improvements through installation of roadside vegetation;
- Are balanced among all geographic areas of the state.

Potential Investments to Reduce Impacts:

- Congestion and value pricing infrastructure
- Transit priority signals (optimizing traffic controls)
- Pedestrian and bicycle right-of-way investments
- Safe routes to school
- Active traffic management
- Traffic signal optimization
- Freight priority signals & infrastructure

Potential Investments to Adapt to Climate Change:

- Enhanced roadway drainage
- Improve slope stability
- Vegetation management
- Culvert replacement (coastal and statewide)
- Wildlife crossings (Central and Eastern Oregon)
- Protect critical bridges from extreme events (coast)
- Resilience on the Oregon coast

Oregon Climate Action Program (HB2020):

(with dash 31 amendments)

Benefits for Oregon Workers & the Economy

HB2020 will Create Jobs and Increase Economic Growth:

The state commissioned a third party economic evaluation of House Bill 2020 by Berkeley Economic Advising and Research (BEAR). This economic analysis found that House Bill 2020 will result in:

- **The addition of 23,000 new jobs to the state economy**
- **A 2.5 percent increase in Gross Domestic Product (GDP)**
- **Significant benefits for the lowest income households in Oregon**
    - Energy costs will go down and program investments will drive job creation.
- **Income growth and job creation in rural areas**
- **Economic savings for households and businesses across the state**
    - Innovative technologies (transportation, electric power, and more) will be adopted more quickly.
- **More inclusive economic growth**
    - Energy efficiency and renewable electrification will offer broad based savings to businesses and households.
- **Economic benefits of improved air quality** (averted medical costs and premature mortality)

"Oregon can meet its 2050 climate goals in ways that achieve higher aggregate economic growth and employment. More aggressive GHG mitigation pathway, reducing 2035 emissions 45% below 1990 levels, will confer greater benefits on the state economy, adding about…23,000 new jobs".

-BEAR Economic Assessment, 2019

Strong Labor Standards:

House Bill 2020 requires strong worker protections for projects funded with program dollars.

- Construction projects that receive more than $50k from the Climate Action Program must:
    (1) Pay prevailing wages, offer health care and retirement benefits;
    (2) Demonstrate a history of compliance with federal and state wage and hour laws;
    (3) Participate in apprenticeship program;
    (4) Comply with model rules for labor, workforce, and contracting procedures. These rules establish measurable and enforceable goals for hiring and training workers from impacted communities;
    (5) Require that projects use steel, iron, manufactured products, and coatings for steel and iron that were produced in the United States.
- Model rules shall require the use of project labor agreements (PLAs) for construction projects that receive more than $200k in funds from the Climate Action Program.

Support for Workers (Just Transition Fund):

Each biennium, the Legislature shall appropriate $10 million into the Just Transition Fund to help Oregon workers thrive in the low carbon economy, by:

- Supporting economic diversification, job creation, job training and other employment services;

Each biennium, the Higher Education Coordinating Committee shall write a Just Transition Plan that will include recommendations for the amount of money that shall be deposited into the Just Transition Fund reserve account to provide:

- Financial support to workers dislocated or adversely affected by climate change or climate change policies;
- Additional support to communities adversely affected by climate change.

Prioritization of Locally Sourced Materials:

- Construction projects must use steel, iron, coatings for steel and iron and manufactured products that were produced in the United States to the greatest extent possible.
- Construction projects must give a preference to building materials that were produced in a jurisdiction with a carbon price.

Prepared by: Taylor Smiley Wolfe

Date: April 10, 2019